

REMARKETING MEMORANDUM DATED FEBRUARY 12, 2009

(See “OTHER RELEVANT INFORMATION – Ratings”)

REMARKETING (NOT A NEW ISSUE) – Book-Entry-Only

ON FEBRUARY 24, 1998, THE ORIGINAL DATE OF DELIVERY OF THE SERIES A NOTES, BOND COUNSEL DELIVERED AN OPINION TO THE EFFECT THAT AS OF SUCH DATE, INTEREST ON THE NOTES WAS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND THE SERIES A NOTES WERE PRIVATE ACTIVITY BONDS UNDER APPLICABLE PROVISIONS OF THE INTERNAL REVENUE CODE OF 1986. IN CONNECTION WITH THE REMARKETING OF THE NOTES, AS DESCRIBED HEREIN, BOND COUNSEL WILL DELIVER AN OPINION TO THE EFFECT THAT SUCH REMARKETING DOES NOT IN AND OF ITSELF HAVE AN ADVERSE EFFECT ON THE EXCLUSION FROM FEDERAL INCOME TAX OF THE INTEREST ON THE NOTES UNDER EXISTING LAW. SEE “TAX EXEMPTION” FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

\$28,000,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Airport System Variable Rate Revenue Notes, Series A

Dated: August 15, 1995

Due: November 15, 2017

The \$28,000,000 City of Austin, Texas Airport System Variable Rate Revenue Notes, Series A (the “Series A Notes”), are limited special obligations of the City of Austin, Texas (the “City”), issued pursuant to an ordinance adopted by the City on February 5, 1998 (the “Ordinance”). The Series A Notes are dated August 15, 1995, and were issued in fully registered form and in Authorized Denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 thereof. The Series A Notes will bear interest from February 18, 2009 at an initial rate to be established on or about the Pricing Date (as set forth below) of the Series A Notes. Thereafter, the Series A Notes will bear interest at a Weekly Interest Rate and the interest rate on the Series A Notes will be adjusted on each Wednesday (or the immediately preceding Business Day if Wednesday is not a Business Day) of each week by Citi, as the Remarketing Agent for the Series A Notes hereafter described.

During a Weekly Interest Rate Period, the Series A Notes will be subject to tender for purchase on demand of the owners thereof on any Business Day upon seven days’ irrevocable written notice given by such registered owner to the Tender Agent. The Series A Notes will be subject to mandatory tender for purchase at the principal amount thereof plus accrued interest, if any, upon adjustment to an alternate Interest Rate Period and under certain other circumstances described herein. The purchase of Series A Notes subject to optional or mandatory tender for purchase which have not been remarketed, shall be payable from amounts received under an irrevocable direct-pay letter of credit (the “Letter of Credit”) issued by State Street Bank and Trust Company (“State Street”).



STATE STREET

The Letter of Credit will expire on February 18, 2012 unless extended by State Street. Under certain circumstances the Letter of Credit may terminate prior to its expiration date, including a notice of termination upon an Event of Default under the Letter of Credit and Reimbursement Agreement (the “Reimbursement Agreement”) as described herein. See “SECURITY FOR THE PRIOR LIEN BONDS AND THE REVENUE BONDS – Letter of Credit”.

The Series A Notes constitute Revenue Bonds (as hereinafter defined) and are limited special obligations of the City payable from, and shall be equally and ratably secured by a lien on, the Net Revenues (hereinafter defined) of the Airport System (hereinafter defined) and certain funds established by the Ordinance, which lien is subordinate only to the lien on Net Revenues securing the Prior Lien Bonds (hereinafter defined). In 2005, the City issued and delivered its Airport System Refunding Revenue Bonds, Series 2005 (the “Series 2005 Revenue Bonds”), as Additional Revenue Bonds (hereinafter defined), secured by a lien on the Net Revenues on a parity with the Series A Notes. In the ordinance adopted by the City authorizing the Series 2005 Revenue Bonds (the “Series 2005 Ordinance”), the City has agreed in the Ordinance that it will not issue additional Prior Lien Bonds. No mortgage of any of the physical properties forming a part of the Airport System or any lien thereon or security interest therein has been given in favor of the Revenue Bonds, including the Series A Notes. The Series A Notes are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Series A Notes. See “SECURITY FOR THE SERIES A NOTES” herein.

The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York (“DTC”), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. See “DESCRIPTION OF THE SERIES A NOTES – Book-Entry-Only System” herein.

Certain legal matters will be passed on by Vinson & Elkins L.L.P., Bond Counsel and for the City by McCall, Parkhurst & Horton L.L.P. It is expected that the Series A Notes will be remarketed on or about February 18, 2009.

CITI

CITY OF AUSTIN, TEXAS

Elected Officials

	<u>Term Expires June</u>
Will Wynn..... Mayor	2009
Lee Leffingwell..... Councilmember Place 1	2011
Mike Martinez..... Councilmember Place 2	2009
Randi Shade..... Councilmember Place 3	2011
Laura Morrison..... Councilmember Place 4	2011
Brewster McCracken, Mayor Pro Tem..... Councilmember Place 5	2009
Sheryl Cole..... Councilmember Place 6	2009

Appointed Officials

Marc Ott.....	City Manager
Robert Goode.....	Assistant City Manager
Sue Edwards.....	Assistant City Manager
Rudy Garza.....	Assistant City Manager
Mike McDonald.....	Assistant City Manager
Bert Lumbreras.....	Assistant City Manager
Leslie Browder, CPA.....	Chief Financial Officer
Jeff Knodel, CPA.....	Deputy Chief Financial Officer
Greg Canally.....	Deputy Chief Financial Officer
David Allan Smith.....	City Attorney
Shirley A. Gentry.....	City Clerk

BOND COUNSEL

Vinson & Elkins L.L.P.
Austin, Texas

SECURITIES COUNSEL FOR THE CITY

McCall, Parkhurst & Horton L.L.P.
Austin and Dallas, Texas

FINANCIAL ADVISOR

The PFM Group
Austin, Texas

AUDITORS

Deloitte & Touche LLP
Austin, Texas

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This Remarketing Memorandum does not constitute an offer to sell the Series A Notes in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the Series A Notes, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Remarketing Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

THE SERIES A NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE ORDINANCE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent has reviewed the information in the Remarketing Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

This Remarketing Memorandum contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.**

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REMARKETING MEMORANDUM

relating to

\$28,000,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Airport System Variable Rate Revenue Notes, Series A

INTRODUCTION

The purpose of this Remarketing Memorandum, which includes the cover page and the appendices hereto, is to set forth information concerning the City of Austin, Texas (the “City”), the Airport System (as hereinafter defined), and the City’s Airport System Variable Rate Revenue Notes, Series A (the “Series A Notes”). Unless otherwise indicated, capitalized terms used in this Remarketing Memorandum shall have the meanings established in the Ordinance (as hereinafter defined). See “APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES - Selected Definitions”. **Unless otherwise provided herein, all references to time shall refer to New York City time.**

The Series A Notes were originally issued pursuant to certain provisions of law that are currently codified in Chapters 1371 and 1503, Texas Government Code, as amended, Chapter 22, Texas Transportation Code, as amended, (collectively, the “Acts”) and an amended and restated ordinance of the City Council adopted on February 5, 1998 (the “Ordinance”).

The Series A Notes (the “Series A Notes”) are payable from and equally secured by a lien on and pledge of the Net Revenues of the Airport System which is junior and subordinate to the lien on and pledge of the Net Revenues securing the City’s Airport System Prior Lien Revenue Bonds (the “Prior Lien Bonds”). In 2005, the City issued and delivered its Airport System Refunding Revenue Bonds, Series 2005 (the “Series 2005 Revenue Bonds”), as Revenue Bonds secured by a lien on the Net Revenues on a parity with the Series A Notes. In the ordinance authorizing the Series 2005 Revenue Bonds, (the “Series 2005 Ordinance”), the City covenanted that it would not issue additional Prior Lien Bonds. The Ordinance and the Series 2005 Ordinance are referred to collectively herein as the “Ordinances”. \$52,465,000 principal amount of Prior Lien Bonds are currently outstanding with maturities extending through the year 2018. In addition, the City will continue to transfer from excess revenues of the Airport System to the City’s general fund amounts required to pay general obligation bonds issued by the City for airport purposes and presently outstanding in the principal amount of approximately \$315,450 with a final maturity of September 1, 2022. Under certain circumstances, the Ordinances permit the issuance of additional bonds as Additional Revenue Bonds that will rank on parity with the Revenue Bonds as to lien upon and security of payment from the Net Revenues. See “SECURITY FOR THE PRIOR LIEN BONDS AND THE REVENUE BONDS – Additional Revenue Bonds”.

DESCRIPTION OF THE SERIES A NOTES

General

The Series A Notes were issued pursuant to the Ordinance, in fully registered form, are dated August 1, 1995 and have a stated maturity of November 15, 2017 (“Maturity Date”). The Series A Notes will bear interest on the unpaid principal amount thereof as described below.

Interest on the Series A Notes shall be computed on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed. Interest on the Series A Notes or the principal portion thereof called for redemption will cease to accrue on the date fixed for redemption. At no time shall any Series A Note bear interest at a rate in excess of the Maximum Rate. The authorized denominations are \$100,000 and any integral multiple of \$5,000 in excess of \$100,000.

The Depository Trust Company (“DTC”) will act as the initial securities depository for the Series A Notes, which will be issued initially pursuant to a book-entry-only system. See the information herein under the caption, “BOOK-ENTRY-ONLY SYSTEM”. Under the Ordinance, the City may appoint a successor securities depository to DTC for the Series A Notes. The holders of the Series A Notes have no right to a book-entry-only system for the Series A Notes. The information under the caption, “THE SERIES A NOTES” is subject in its entirety to the provisions described

below under the caption, "BOOK-ENTRY-ONLY SYSTEM" while the Series A Notes are in the book-entry-only system.

Payment of Principal and Interest

The Series A Notes were issued in fully registered form and were registered in the name of Cede & Co., as nominee of DTC. Individual purchases of interests in the Series A Notes will be made in book-entry form only, in authorized denominations as described herein under the caption, "THE SERIES A NOTES - General." Purchasers of such interests will not receive certificates representing their interests in the Series A Notes. For a description of the method of payment of principal, premium, if any, and interest on the Series A Notes and matters pertaining to their transfers and exchanges while in the book-entry-only system, see the information herein under the caption, "BOOK-ENTRY-ONLY SYSTEM."

So long as Cede & Co. is the registered owner of the Series A Notes, the Paying Agent will pay principal of and interest on the Series A Notes to DTC, which will remit such principal and interest payments to the Beneficial Owners of the Series A Notes, as described herein under the caption, "BOOK-ENTRY-ONLY SYSTEM."

Interest on the Series A Notes is payable by (i) check mailed on the date on which due to the Registered Owners thereof at the address of such Registered Owners shown on the registration books kept by the Paying Agent as of the close of business on the Record Date in respect of such interest, or (ii) during such time the Series A Notes are bearing interest at a Bond Interest Term Rate, or with respect to a Registered Owner who is the registered owner of Series A Notes in an aggregate principal amount of at least \$1,000,000 and who, prior to the Record Date next preceding any Interest Payment Date, shall have provided the Paying Agent with wire transfer instructions, by wire transfer; provided, that during any period during which the Series A Notes bear interest at Bond Interest Term Rates, interest payable on the Series A Notes is payable only upon surrender of the Series A Notes to the Paying Agent at its Designated Payment/Transfer Office for delivery of the Series A Notes. Payment of principal, premium, if any, and interest on its Maturity Date or on redemption in whole or in part of the Series A Notes shall be made only upon presentation and surrender of the Series A Notes at the Designated Payment/Transfer Office of the Paying Agent, or at the designated office of any successor Paying Agent.

Interest Payment Dates

For any Weekly Interest Rate Period, interest initially shall accrue from the first day thereof and thereafter from the first Wednesday of each calendar month during that Weekly Interest Rate Period, to and including the Tuesday prior to the first Wednesday of the next succeeding calendar month and shall be payable on the first Wednesday of each calendar month, or, if such first Wednesday is not a Business Day, the next succeeding Business Day; provided that with respect to the first Interest Payment Date for the Series A Notes, interest shall accrue from February 18, 2009 of the Series A Notes through and including February 24, 2009. For any Short-Term Interest Rate Period, interest shall accrue from the first day thereof and thereafter from each Interest Payment Date in respect thereof other than the last such Interest Payment Date and shall be payable on the day next succeeding the last day thereof. In addition, for each Interest Rate Period, interest shall be payable on the day next succeeding the last day of the Interest Rate Period.

Interest Rates – General

Except in connection with a phased adjustment of Series A Notes from a Short-Term Interest Rate Period to a Weekly Interest Rate Period, all Series A Notes shall bear interest at either a Weekly Interest Rate or Bond Interest Term Rate or Rates and no Series A Note shall bear interest in excess of the Maximum Rate.

The first Interest Rate Period shall commence on February 18, 2009 and shall be a Weekly Interest Rate Period. The City may elect at any time that all Series A Notes will be adjusted to the alternate Short-Term Interest Rate Period, subject to the satisfaction of certain conditions specified in the Ordinance, including delivery of a Favorable Opinion of Bond Counsel in connection with an adjustment.

Weekly Interest Rate Period

The Weekly Interest Rate shall be determined by the Remarketing Agent on Tuesday of each week during a Weekly Interest Rate Period (or the next succeeding Business Day if any such Tuesday is not a Business Day). The first Weekly

Interest Rate determined for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate shall apply to the period commencing on Wednesday (whether or not a Business Day) and ending on the next succeeding Tuesday (whether or not a Business Day), unless such Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate shall apply to the period commencing on Wednesday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period.

The Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the affected Series A Notes, would enable the Remarketing Agent to sell such Series A Notes on the effective date of such rate at a price (without regard to accrued interest) equal to the principal amount thereof.

If the Remarketing Agent fails to establish a Weekly Interest Rate for any week during a Weekly Interest Rate Period, the interest rate for such week shall be the same as the Weekly Interest Rate for the immediately preceding week, if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. If for any reason the Remarketing Agent did not determine the Weekly Interest Rate for the immediately preceding week, or if a Weekly Interest Rate determined by the Remarketing Agent for any week shall be held to be invalid or unenforceable by a court of law, the interest rate for such week shall be equal to 115% of the most recently published SIFMA Index.

ADJUSTMENT TO BOND INTEREST TERM RATES. At any time, the City, by written direction to the Paying Agent/Registrar, the Tender Agent, the Credit Bank and the Remarketing Agent, may elect, subject to receipt of a Favorable Opinion of Bond Counsel, that the Series A Notes shall bear interest at Bond Interest Term Rates. Such direction of the City shall specify (1) the effective date of the Short-Term Interest Rate Period (during which the Series A Notes shall bear interest at Bond Interest Term Rates), which shall be (A) a Business Day not earlier than the 12th day following the second Business Day after receipt by the Paying Agent/Registrar of such direction and (B) the day immediately following the last day of such Interest Rate Period; and (2) the date of delivery of such Series A Notes to be purchased (if other than such effective date). In addition, the direction of the City shall be accompanied by a Favorable Opinion of Bond Counsel and a copy of the notice to be mailed by the Paying Agent/Registrar to the Owners of the Series A Notes. During each Short-Term Interest Rate Period commencing on the date so specified and ending, with respect to each Series A Note, on the day immediately preceding the effective date of the next succeeding Interest Rate Period with respect to such Series A Note, each Series A Note shall bear interest at a Bond Interest Term Rate during each Bond Interest Term for such Series A Note.

NOTICE OF ADJUSTMENT TO BOND INTEREST TERM RATES. The Paying Agent/Registrar shall give notice by first-class mail of an adjustment to a Short-Term Interest Rate Period to the Owners of the Series A Notes not less than 12 days prior to the effective date of such Short-Term Interest Rate Period. Such notice shall state (1) that the Series A Notes shall bear interest at Bond Interest Term Rates unless Bond Counsel fails to deliver to the City, the Paying Agent/Registrar and the Remarketing Agent a Favorable Opinion of Bond Counsel as to such adjustment on the effective date of such adjustment in the Interest Rate Period, in which case the Series A Notes shall continue to bear interest at a Weekly Interest Rate as in effect immediately prior to such proposed adjustment in the Interest Rate Period; (2) that during such Short-Term Interest Rate Period, each Series A Note shall have one or more consecutive Bond Interest Terms during each of which such Series A Note will bear interest at a Bond Interest Term Rate; (3) the effective date of such Short-Term Interest Rate Period; and (4) that the Series A Notes are subject to mandatory tender for purchase on the effective date of such Short-Term Interest Rate Period and setting forth the applicable purchase price.

OPINION OF BOND COUNSEL. In connection with any adjustment of the Interest Rate Period on the Series A Notes, the City shall cause to be provided to the Paying Agent/Registrar and the Remarketing Agent a Favorable Opinion of Bond Counsel on the effective date of such adjustment if such opinion was required with respect to such adjustment. In the event that Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on any such date, then the Interest Rate Period on the Series A Notes shall not be adjusted, and the Series A Notes shall continue to bear interest at a Weekly Interest Rate or Bond Interest Term Rates, as the case may be, as in effect immediately prior to such proposed adjustment in the Interest Rate Period. In any event, if notice of such adjustment has been mailed to the Owners of the Series A Notes and Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date as herein described, the Series A Notes shall continue to be subject to mandatory purchase on the date which would have been the effective date of such adjustment.

Short Term Interest Rate Period

DETERMINATION OF BOND INTEREST TERMS AND BOND INTEREST TERM RATES. During each Short-Term Interest Rate Period, each Series A Note shall bear interest during each Bond Interest Term at the Bond Interest Term Rate for such Series A Note. The Bond Interest Term and the Bond Interest Term Rate for each Series A Note need not be the same for any two Series A Notes, even if determined on the same date. Each of such Bond Interest Terms and Bond Interest Term Rates for each Series A Note shall be determined by the Remarketing Agent no later than the first day of each Bond Interest Term. The Remarketing Agent shall announce the range or ranges of possible Bond Interest Terms no later than 9:00 a.m. on the first day of a Bond Interest Term for such Series A Notes; provided, however, that the Remarketing Agent may change the Bond Interest Terms or ranges of Bond Interest Terms announced and offered at such times and as often as the Remarketing Agent deems appropriate. Except for any Series A Notes purchased on behalf of the City and remaining unsold by the Remarketing Agent at the close of business on the first day of the Bond Interest Term, each Bond Interest Term shall be for a period of days with the range or ranges announced as possible Bond Interest Terms no later than 9:00 a.m. on the first day of each Bond Interest Term by the Remarketing Agent. Each Bond Interest Term for each Series A Note shall be a period of not more than 270 days, determined by the Remarketing Agent in its sole judgment to be the period which, together with all other Bond Interest Terms for all Series A Notes then Outstanding, will result in the lowest overall borrowing cost on the Series A Notes over the next succeeding 270 days or is otherwise in the best financial interests of the City; provided, however, that no Bond Interest Term shall be established for a period which would result in a Bond Interest Term Rate in excess of the Maximum Rate; provided further, however, that in no event shall the Bond Interest Term Rate applicable to Series A Notes during such period as a Credit Facility is in effect with respect thereto be an interest rate which would cause the aggregate interest due on the next succeeding Interest Payment Date for all Outstanding Series A Notes, the interest on which is payable from such Credit Facility, to exceed the coverage of the Credit Facility with respect to interest on such Series A Notes. Any Series A Note purchased on behalf of the City and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Bond Interest Term for that Series A Note shall have a Bond Interest Term of one day or, if that Bond Interest Term would not end on a day immediately preceding a Business Day, a Bond Interest Term ending on the day immediately preceding the next succeeding Business Day. Each Bond Interest Term shall end on either a day which immediately precedes a Business Day or on the day immediately preceding the Maturity Date. If for any reason a Bond Interest Term for any Series A Note cannot be so determined by the Remarketing Agent or if the determination of such Bond Interest Term is held by a court of law to be invalid or unenforceable, then such Bond Interest Term shall be 30 days, but if the last day so determined shall not be a day immediately preceding a Business Day, shall end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding the Maturity Date, shall end on the day immediately preceding the Maturity Date. In determining the number of days in each Bond Interest Term, the Remarketing Agent shall take into account the following factors: (i) existing short-term tax-exempt market rates and indices of such short-term rates, (ii) the existing market supply and demand for short-term tax-exempt securities, (iii) existing yield curves for short-term and long-term tax-exempt securities or obligations of credit quality comparable to the Series A Notes, (iv) general economic conditions, (v) economic and financial conditions present in the securities industry that may affect or be relevant to the Series A Notes, (vi) the Bond Interest Terms of other Series A Notes, (vii) any information available to the Remarketing Agent pertaining to the City regarding any events or anticipated events which could have a direct impact on the marketability of or interest rate on the Series A Notes and (viii) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent, in its sole discretion shall determine to be relevant. The Bond Interest Term Rate for each Bond Interest Term for each Series A Note shall be the rate of interest per annum determined by the Remarketing Agent no later than the first day of each Bond Interest Term (based on an examination of tax-exempt obligations comparable, in the sole judgment of the Remarketing Agent, to the Series A Notes and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by such Series A Notes, would enable the Remarketing Agent to sell such Series A Notes on the date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof. If for any reason a Bond Interest Term Rate for any Series A Notes is not so established by the Remarketing Agent for any Bond Interest Term, or such Bond Interest Term Rate is determined by a court of law to be invalid or unenforceable, then the Bond Interest Term Rate for such Bond Interest Term shall be the rate per annum equal to 115% of the most recently published SIFMA Index. The determination of each Bond Interest Term and Bond Interest Term Rate by the Remarketing Agent shall be conclusive and binding upon the City, the Remarketing Agent, the Tender Agent, the Paying Agent/Registrar, the Credit Bank and the Owners of the Series A Notes.

ADJUSTMENT TO WEEKLY INTEREST RATE. At any time, the City, by written direction to the Paying Agent/Registrar, the Tender Agent, the Credit Bank and the Remarketing Agent, may elect, subject to a Favorable Opinion of Bond Counsel, that the Series A Notes shall bear interest at a Weekly Interest Rate. Such direction of the City shall specify (1) the effective date of such adjustment to a Weekly Interest Rate, which shall be (A) a Business Day not earlier than the 12th day following the second Business Day after receipt by the Paying Agent/Registrar of such direction and (B) the day immediately following the last day of the then current Bond Interest Term with respect to such Series A Notes and (2) the date of delivery for such Series A Notes to be purchased (if other than such effective date). In addition, such direction of the City shall be accompanied by a Favorable Opinion of Bond Counsel and by a copy of the notice to be mailed to the Owners of the Series A Notes by the Paying Agent/Registrar. During each Weekly Interest Rate Period commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the Series A Notes shall be a Weekly Interest Rate.

NOTICE OF ADJUSTMENT TO WEEKLY INTEREST RATE. The Paying Agent/Registrar shall give notice by first-class mail of an adjustment to a Weekly Interest Rate Period to the Owners of the Series A Notes not less than 12 days prior to the effective date of such Weekly Interest Rate Period. Such notice shall state (1) that the interest rate on the Series A Notes will be adjusted to a Weekly Interest Rate unless Bond Counsel fails to deliver to the City, the Paying Agent/Registrar and the Remarketing Agent a Favorable Opinion of Bond Counsel as to such adjustment on the effective date of such adjustment in the Interest Rate Period, in which case the Series A Notes, shall continue to bear interest at Bond Interest Term Rates for the Bond Interest Terms as in effect immediately prior to such proposed adjustment in the Interest Rate Period; (2) the effective date of such Weekly Interest Rate Period; and (3) that the Series A Notes are subject to mandatory tender for purchase on such effective date and setting forth the applicable purchase price.

OPINION OF BOND COUNSEL. In connection with any adjustment of the Interest Rate Period on the Series A Notes, the City shall cause to be provided to the Paying Agent/Registrar and the Remarketing Agent a Favorable Opinion of Bond Counsel on the effective date of such adjustment if such opinion was required with respect to such adjustment. In the event that Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on any such date, then the Interest Rate Period on the Series A Notes shall not be adjusted, and the Series A Notes shall continue to bear interest at a Weekly Interest Rate or Bond Interest Term Rates, as the case may be, as in effect immediately prior to such proposed adjustment in the Interest Rate Period. In any event, if notice of such adjustment has been mailed to the Owners of the Series A Notes and Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date as herein described, the Series A Notes shall continue to be subject to mandatory purchase on the date which would have been the effective date of such adjustment.

Purchase of Series A Notes

Tender for Purchase Upon Election of Noteowner During Weekly Interest Rate Period. During any Weekly Interest Rate Period, any Series A Note bearing interest at the Weekly Interest Rate shall be purchased from the Owner thereof at the option of such Owner on any Business Day at a purchase price equal to the principal amount thereof, plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase shall be an Interest Accrual Date, in which case at a purchase price equal to the principal amount thereof, payable in immediately available funds, upon delivery by such owner to the Tender Agent at its designated office for notice of tender (the "Designated Tender Office") initially in Austin, Texas, of an irrevocable written notice which states the name of the Series A Note, the principal amount of such Series A Note, the Note number, and the date on which such Series A Note is to be purchased, which date shall be a Business Day at least seven days after the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m. shall be deemed to have been received by the Tender Agent on the next succeeding Business Day. For payment of such purchase price by wire transfer in immediately available funds on the date specified in such notice, such Series A Note must be delivered at or prior to 10:00 a.m. on the date specified in such notice to the Tender Agent at its Designated Tender Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or the Owner's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange. If any Owner of a Series A Note who shall have been given notice of tender of purchase pursuant to this paragraph shall fail to deliver such Series A Note to the Tender Agent at the place and on the applicable date and at the time specified, or shall fail to deliver such Series A Note properly endorsed, such Series A Note shall constitute an Undelivered Series A Note. If funds in the amount of the purchase price of the Undelivered Series A Note are available for payment to the Owner thereof on the date and at the time specified, from and after the date and time of that required delivery (i) the

Undelivered Series A Note shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Ordinance; (ii) interest shall no longer accrue thereon; and (iii) funds in the amount of the purchase price of the Undelivered Series A Note shall be held by the Tender Agent for the benefit of the Owner thereof (provided that the Owner shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the Undelivered Series A Note to the Tender Agent at its Designated Tender Office. Any funds held by the Tender Agent as described in clause (iii) of the preceding sentence shall be held uninvested.

Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Bond Interest Term. On the day next succeeding the last day of each Bond Interest Term for a Series A Note, unless such day is the first day of a new Interest Rate Period (in which event such Series A Note shall be subject to mandatory tender for purchase pursuant to the next paragraph), such Series A Note shall be purchased or deemed purchased from its Owner at a purchase price equal to the principal amount thereof payable by wire transfer in immediately available funds. Payment of the purchase price on any Series A Note shall be made on such day if such Series A Note is delivered to the Tender Agent on or prior to 12:00 Noon on such day, or if such Series A Note is delivered after 12:00 Noon on such day then on the next succeeding Business Day. The purchase price of any Series A Notes so purchased shall be payable only upon surrender of such Series A Notes to the Tender Agent at its Designated Tender Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or his duly authorized attorney, with such signature guaranteed by a bank, trust company or member firm of the New York Stock Exchange, Inc.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Series A Notes shall be subject to mandatory tender for purchase at a purchase price, payable in immediately available funds, equal to the principal amount of the Series A Notes on the first day of each Interest Rate Period or, if Bond Counsel has failed to deliver a Favorable Opinion of Bond Counsel, on the day which would have been the first day of an Interest Rate Period had a Favorable Opinion of Bond Counsel been delivered and the interest rate on Series A Notes adjusted.

Mandatory Tender for Purchase Upon Termination, Expiration, Reduction, Modification or Replacement of the Credit Facility. If at any time the Paying Agent/Registrar shall give notice that any Series A Notes payable from the Credit Facility as then in effect shall on the date specified in such notice cease to be payable from such Credit Facility as a result of (i) the termination or expiration of the term of such Credit Facility, (ii) the occurrence of an event of default under the Credit Facility or (iii) such Credit Facility being reduced, replaced or modified with the effect that such Series A Notes are no longer payable from such Credit Facility or the amount of coverage with respect thereto has been reduced or will not be reinstated following a draw on the Credit Facility with respect to interest on the Series A Notes, then (but only in the circumstances where the Letter of Credit has not been renewed or replaced by an Alternate Letter of Credit issued and delivered at least 45 days prior to such termination, expiration, reduction or modification) on the fifth day preceding any termination, expiration, reduction or modification of the Credit Facility, or in the case of the failure of the Credit Bank to reinstate the amount payable on the Credit Facility as to interest within the time permitted thereby a Business Day not less than 10 days but not more than 15 days after the Credit Bank shall have failed to reinstate the amount payable on the Credit Facility with respect to interest, each such Series A Notes shall be purchased or deemed purchased as herein provided. The purchase price for such Series A Notes shall be equal to the principal amount thereof, plus accrued interest (if any). Payment of the purchase price of any Series A Note required to be purchased pursuant to prior provisions of this paragraph shall be made in immediately available funds by 4:00 p.m. on such purchase date upon delivery of such Series A Note to the Tender Agent at its Designated Tender Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or his duly authorized attorney with such signature guaranteed by a bank, trust company or member firm of the New York Stock Exchange, Inc., at or prior to 10:00 a.m. on the date specified for such delivery in the notice, or, if no such date shall have been so specified, on the second Business Day preceding such expiration, termination, reduction or modification of the Credit Facility. Notwithstanding anything in this paragraph to the contrary, in the event that in connection with any reduction of the amount payable under the Credit Facility, the City shall deliver to the Paying Agent/Registrar, the Tender Agent and the Remarketing Agent, prior to the date that notice of such reduction is given by the Paying Agent/Registrar, written evidence from each Rating Agency then rating the Series A Notes, to the effect that such reduction, in and of itself, will not result in the withdrawal or reduction of the rating(s) then applicable to the Series A Notes, then the Series A Notes shall not be subject to mandatory tender for purchase as provided in this paragraph solely as a result of such reduction, but in such event the Paying Agent/Registrar shall give the "Notice of Termination, Event of Default or Other Change in Credit Facility" required by the Ordinance.

Redemption

The Series A Notes will be subject to optional redemption by the City, in whole or in part in authorized denominations, on any Interest Payment Date, at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, without premium. Notice of any Optional Redemption identifying the Series A Notes to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least 15 days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Series A Note to be redeemed in whole or in part at the address shown on the Register. Such notice shall state the redemption date, the redemption price, the amount of accrued interest payable on the redemption date, the place at which Series A Notes are to be surrendered for payment and, if less than the entire principal amount of a Series A Note is to be redeemed, the portion thereof to be redeemed. Any notice given as provided in this paragraph shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the redemption price of the Series A Notes to be redeemed, plus accrued interest to the date fixed for redemption. When the Series A Notes have been called for redemption in whole or in part and due provision has been made to redeem same as herein provided, the Series A Notes or portions thereof so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would otherwise accrue after the redemption date on any Series A Note or portion thereof called for redemption shall terminate on the date fixed for redemption.

Book-Entry-Only System

DTC will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: “AAA.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

Subject to DTC's policies and guidelines, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Registration, Transfer and Exchange

Registration and Payment. The Series A Notes were initially issuable in, and currently are held in, the name of Cede & Co., as nominee of DTC, which acts as securities depository for the Series A Notes. Debt Service on the Series A Notes will be paid by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which shall disburse such payments to the DTC participants, who will be responsible for distributing such payments to the Beneficial Owners as described herein.

For so long as DTC is the securities depository for the Series A Notes, the term “Owner” shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Series A Notes, the term “Owner” shall refer to a successor securities depository or the Beneficial Owners of the Series A Notes which are shown as registered owners on the registration books of the Paying Agent/Registrar.

Future Registration. In the event that DTC is no longer the securities depository for the Series A Notes and a successor securities depository is not appointed by the City, the Series A Notes may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar and such registration shall be at the expense of the City except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by execution of an assignment form on the Series A Notes or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Note will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Note in accordance with the provisions of the Ordinance. Such new Series A Notes must be in an Authorized Denomination.

The Paying Agent/Registrar. The Bank of New York Mellon Trust Company is acting as the Paying Agent/Registrar for the Series A Notes. Provision is made in the Ordinance for replacement of the Paying Agent/Registrar for one or more series of Series A Notes. A successor Paying Agent/Registrar, if any, shall be determined by the City. The Paying Agent/Registrar shall not be required to transfer or exchange any Series A Note during the 15-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of a Series A Note called for redemption in part.

Limitations on Remedies

The Ordinance constitutes a contract between the City and the Owners of the Revenue Bonds from time to time outstanding and the Ordinance shall be and remain irrevocable until the Revenue Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Revenue Bonds or in the payment of any Reimbursement Obligations or a default in the performance of any duty or covenant provided by law or in the Ordinance, the Owner or Owners of any of the Revenue Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Revenue Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Ordinance, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in the Ordinance.

On June 30, 2006, the Texas Supreme Court (the “Court”) ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“*Tooke*”) that a waiver of sovereign immunity must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued” or “plead and be impleaded”, in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act applies to cities and relates to contracts entered into by cities for goods or services. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State of Texas or a political subdivision of the State of Texas is a party (including the payment of monies due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”); however, Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as that of the Net Revenues of the Airport System. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the

registered owners, other than for the pledge of Net Revenues of the Airport System securing the Series A Notes, would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

SECURITY FOR THE PRIOR LIEN BONDS AND THE REVENUE BONDS

Pledge

The Series A Notes are limited special obligations of the City and are payable from and are equally and ratably secured solely by a lien on the Net Revenues of the Airport System, subordinate only to the lien on and pledge of Net Revenues to secure the Prior Lien Bonds, and a first lien on the moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The Series A Notes are Revenue Bonds under the Ordinance. For definitions of the "Airport System," "Net Revenues," "Revenue Bonds," and "Operation and Maintenance Expenses," see "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES - Selected Definitions."

The Ordinance does not constitute a mortgage of any of the physical properties forming a part of the Airport System or create any lien thereon or security interest therein. The Series A Notes are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Series A Notes.

Letter of Credit

[COPY TO COME]

Rate Covenant

In the Ordinances, that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year, the Net Revenues will be at least sufficient to equal the **larger** of either (i) all amounts required to be deposited in such Fiscal Year to the credit of the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expenses Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, **or** (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for the Prior Lien Bonds and Revenue Bonds for such Fiscal Year plus an amount equal to 100% of anticipated and budgeted Administrative Expenses for such Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinances even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as debt service is paid when due.

Pursuant to the Ordinances, so long as any Series A Notes or Credit Agreement Obligations remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and deliver to the chief budget officer of the City, for submission to the City Council, a recommended annual budget for the Airport System for such Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of Gross Revenues and only such budgeted expenditures as will produce Net Revenues in an amount that, after making all deposits and payments required by the Prior Lien Ordinances, is not less than the amount necessary to pay the Debt Service and Administrative Expenses when due and make the required deposits to the Debt Service Reserve Fund. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may

from time to time be amended. The City Manager supervises each department of the City and is responsible for the preparation and presentation of the overall budget.

Debt Service Reserve Fund

The Series 2005 Ordinance establishes a Debt Service Reserve Fund for the benefit of all Revenue Bonds and requires that an amount equal to the Debt Service Reserve Fund Requirement be accumulated and maintained therein in accordance with the Series 2005 Ordinance. The Debt Service Reserve Fund Requirement is defined as the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding, including the Series A Notes. The Series 2005 Ordinance also provides for the use of a Debt Service Reserve Fund Surety Bond in lieu of a cash deposit. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds - Debt Service Reserve Fund."

In connection with the issuance of the Series 2005 Revenue Bonds, a surety bond in the amount equal to the Debt Service Reserve Fund Requirement issued by Financial Security Assurance ("FSA") was deposited to the credit of the Debt Service Reserve Fund to fully fund the Debt Service Reserve Fund Requirement in the amount of \$25,536,832.80.

In connection with the issuance of the Debt Service Reserve Fund Surety Bond, the City and FSA entered into an Insurance Agreement (the "Agreement"). Pursuant to the Agreement, the City has agreed to reimburse FSA together with interest with respect to any draw on the Debt Service Reserve Fund Surety Bond. The reimbursement period shall be 18 months following payment to the Debt Service Reserve Fund pursuant to a Debt Service Reserve Fund Surety Bond payment. The City has never drawn on a Debt Service Reserve Fund Surety Bond issued in connection with Airport System Bonds.

[Glenn/Jeff to provide FSA disclosure language.]

Additional Revenue Bonds

The City has reserved the right to issue Additional Revenue Bonds on a parity with the Series 2005 Revenue Bonds and the Series A Notes for any lawful Airport System purpose upon the meeting of certain conditions including the following: (i) certain officials of the City certify that upon issuance of such Additional Revenue Bonds the City will not be in default under any terms or provisions of any Prior Lien Bonds or Revenue Bonds or under the provisions of the ordinances pursuant to which they were issued, and upon the issuance of such Additional Revenue Bonds the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund and Debt Service Reserve Fund will have the required amounts on deposit or contained therein; and (ii) a written report of an Airport Consultant indicates that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three (3) consecutive Fiscal Years beginning in the earlier of (a) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or (b) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Revenue Bonds, investment income thereon or from other appropriated sources (other than Net Revenues) are equal to at least 125% of the Debt Service Requirements on all Outstanding Prior Lien Bonds and Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

In lieu of the certification described in (ii) above, the City's Chief Financial Officer may provide a certificate showing that, for either the City's most recently completed Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all outstanding Prior Lien Bonds and Series A Notes scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Revenue Bonds proposed to be issued.

If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither the report of the Airport Consultant nor the certificate of the City's Chief Financial Officer described above is required so long as the maximum annual Debt Service

Requirements in any Fiscal Year after the issuance of such Additional Revenue Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of the Additional Revenue Bonds.

Subordinate Obligations

The City has reserved the right to issue or incur, for any lawful Airport System purpose, Bonds, notes or other obligations, including credit agreement obligations related thereto, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Prior Lien Bonds and the Series A Notes, and any additional Revenue Bonds. Although referred to in the Ordinance as “Subordinate Obligations”, such Bonds, notes or other obligations may bear any name or designation provided by the ordinance authorizing their issuance. Such Subordinate Bonds may be further secured by any other source of revenues lawfully available for such purposes, whether or not pledged as security for the Series A Notes or the Revenue Bonds. See “DEBT SERVICE REQUIREMENTS”.

Special Facilities Bonds

The City has reserved the right to issue from time to time, in one or more series, Special Facilities Bonds as provided in the Ordinances to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Prior Lien Bonds, the Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Notes. See “DEBT SERVICE REQUIREMENTS”.

Flow of Funds

The Ordinances create, or affirm the creation of, various funds and accounts, eight special funds in addition to the Construction Fund. Gross Revenues as received are required to be deposited into the Revenue Fund established by the Ordinances, and moneys in such fund are required to be applied and allocated on a monthly basis in the manner and the priority established by the Ordinances. See “APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCES - Funds and Flow of Funds”.

Special Considerations Relating to the Series A Notes

The Remarketing Agent is Paid By the City. The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing Series A Notes that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Ordinance and the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing Holders and potential purchasers of Series A Notes.

The Remarketing Agent Routinely Purchases Series A Notes for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series A Notes for its own account and, in its sole discretion, may routinely acquire such tendered Series A Notes in order to achieve a successful remarketing of the Series A Notes (i.e., because there otherwise are not enough buyers to purchase the Series A Notes) or for other reasons. However, the Remarketing Agent is not obligated to purchase Series A Notes, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Series A Notes by routinely purchasing and selling Series A Notes other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series A Notes. The Remarketing Agent may also sell any Series A Notes it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series A Notes. The purchase of Series A Notes by the Remarketing Agent may create the appearance that there is greater third party demand for the Series A Notes in the market than is actually the case. The practices described above also may result in fewer Series A Notes being tendered in a remarketing.

Series A Notes May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the Ordinance and the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series A Notes bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Series A Notes (including whether the Remarketing Agent is willing to purchase Series A Notes for its own account). There may or may not be Series A Notes tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket any Series A Notes tendered for purchase on such date at par and the Remarketing Agent may sell Series A Notes at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series A Notes at the remarketing price. In the event a Remarketing Agent owns any Series A Notes for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Series A Notes on any date, including the interest rate determination date, at a discount to par to some investors.

The Ability to Sell the Series A Notes Other Than Through the Tender Process May Be Limited. The Remarketing Agent may buy and sell Series A Notes other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require Holders that wish to tender their Series A Notes to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series A Notes, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series A Notes other than by tendering the Series A Notes in accordance with the tender process.

The Remarketing Agent May Resign, Without a Successor Being Named. The Remarketing Agent may resign, upon 30 days' prior written notice, without a successor having been named.

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Table 1
DEBT SERVICE REQUIREMENTS
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THE AIRPORT SYSTEM

ABIA

The Airport System is comprised of airport, heliport and aviation facilities or any interest therein owned, operated or controlled in whole or in part by the City and includes Austin Bergstrom International Airport (“ABIA”), but expressly excludes any heliport or heliports operated by City Departments other than the Aviation Department. ABIA is classified by the Federal Aviation Administration (“FAA”) as a medium hub airport. According to Airports Council International, ABIA is the 46th largest airport in the United States based on 2007 total passengers.

On May 23, 1999, ABIA commenced operations at which time Robert Mueller Municipal Airport ceased operations. The property on which Robert Mueller Municipal Airport was located is being developed as mixed-use development, and will no longer be used as an airport. ABIA includes the passenger terminal building, support facilities and a network of public and restricted use roads. The terminal building, the adjacent aircraft parking apron and the related support facilities are located between the independent parallel runways. The terminal building contains 675,000 square feet of integrated terminal core and concourse areas with 25 gates (24 domestic and one international gate and associated Federal Inspection Services area). The existing terminal building may be expanded to add up to twenty-nine additional gates for maximum build out.

A parking garage is directly adjacent to the landside of the terminal. The structure is a three-level concrete facility with a capacity of 3,600 vehicles, including approximately 1,200 rental car ready return spaces. Two pedestrian connector bridges between the elevated road structure and the parking garage provide access from the terminal building to the parking garage. The public and employee parking lots provide parking for approximately 11,500 vehicles.

The east runway consists of a 9,000-foot by 150-foot concrete runway and a parallel 75-foot-wide taxiway, taxiway connectors and high-speed exits. The midfield cross taxiways consist of two 4,300-foot by 75-foot concrete parallel taxiways. The west runway consists of a 12,250-foot concrete runway and parallel taxiway and a new cross taxiway. Included in both are grading, drainage, pavement, paint stripping, lighting, signage, and utilities.

The terminal access road provides northerly access to the terminal complex from State Highway 71 via a looped, six-lane access road. The road encircles the parking garage and employee and public parking lots and splits into upper and lower levels in front of the terminal building, providing access for departures and arrivals. The overall length of the road is approximately two miles, including the elevated departure section.

ABIA also includes various aprons and taxiways to support other ABIA users, including the Texas Department of Transportation, Texas Army National Guard, and corporate and general aviation, plus support facilities for the airlines such as the Belly Freight and Ground Service Equipment Maintenance facilities. The airline/cargo fuel farm tank capacity is 1,200,000 gallons. The airport has six third party cargo buildings, which comprise approximately 1,429,072 square feet of ground space, while offering approximately 285,385 square feet of warehouse space.

The City has adopted noise, height, and land-use compatibility ordinances for the areas surrounding ABIA and has completed its Noise Study guidelines. The FAA approved noise studies as submitted on August 10, 1994, in November 2000, and most recently in December 2007. The scope of the noise mitigation program included the acquisition of approximately 68 parcels to date with an additional 65 parcels included in the recently updated study for an estimated total of \$71 million dollars.

In December 2007, the City executed a lease with Austin AIB One, LLC (“AIB One”) to develop, construct, operate and maintain a new low cost South Terminal at the Airport. AIB One is an affiliate of GE Commercial Aviation Services. The terminal is intended to attract airlines that operate under an ultra low cost operating model. The initial airline that has committed to operate from the South Terminal is vivaAerobus, a Mexican airline that will offer non-stop flights to various destinations in Mexico. Initially, AIB One will convert an existing former Texas National Guard building into an interim 28,000 SF terminal with three gates. The interim terminal opened May 1, 2008. If certain financial and passenger enplanement targets are met, AIB One will design, construct, operate and maintain a “permanent” South Terminal approximately 100,000 SF in size with 8 to 10 gates. The agreement with AIB One is structured as a 30 year lease of a tract of 40 acres of land in the South part of the airport between the parallel runways. Access to the new terminal will be from the south via Burleson Road and General Aviation Avenue. The Department of Aviation will receive ground rent, plus a share of the commercial revenues generated from the operation of the South

Terminal, including parking, concessions, and rental car revenue. Additionally, the Airport System will benefit from landing fees and PFCs (as hereinafter defined) generated by airlines that operate at the South Terminal.

Capital Program

Austin-Bergstrom International Airport's passenger activity growth averaged approximately 6.5% year over year for the five fiscal years ended Fiscal Year 2008. The airport exceeded several Master Plan trigger points signaling the need for capital expansion. In anticipation of continued growth and to meet the needs of the prior years' growth, the airport developed a \$500 million Five Year Capital Plan in Fiscal Year 2008 which included terminal gate build out and a parking garage expansion. Though the Fiscal Year 2009 Five Year Capital Plan was adopted by the airport in its entirety, it became apparent as Fiscal Year 2008 progressed that airline, passenger, and economic growth would not continue as it did in earlier years. As a result, the airport delayed many of its Fiscal Year 2009 capital projects. In order to minimize the impact of additional debt and to preserve the airport's capital, the airport will postpone the majority of the capital projects outlined in the Fiscal Year 2009 Five Year Capital Improvement Program because the growth rates needed to justify the expenditure of funds have not materialized.

The Airport's Five Year Capital Improvement Program beginning Fiscal Year 2009 totaling \$556,625,000 is funded by:

- Cash from the Airport's Capital Fund, 25%
- Airport Revenue Bonds, 22%
- Special Facility Charges, 13%
- Passenger Facility Charge leveraged Bonds, 13%
- Special Facility Bonds, 12%
- Federal Aviation Administration and Transportation Security Administration grants, 9%
- Passenger Facility Charge pay as you go, 4%, and
- Third party development, 2%.

The projects for the five year program fall into five categories: Airfield/Apron – \$115,600,000; Terminal – \$210,100,000; Parking and Roadways – \$186,200,000; Noise Mitigation – \$21,375,000; and \$23,350,000 – for miscellaneous issues including new signage, chemical suppression improvements, cooling tower repairs, telecom/data facility and drainage improvements.

Master Plan

The Master Plan update was completed in early 2003 and a Capital Improvement Program (CIP) for the Master Plan implementation was completed in March 2008. The Master Plan sets trigger points utilizing passenger, operations and vehicular statistics over the planning period of twenty years. Specific recommendations and/or updates of the Master Plan include:

- updated aviation demand forecasts;
- landside and airside facility requirements;
- evaluated airport development alternatives;
- prepared a airport layout plan;
- developed a financial plan; and
- evaluated potential environmental impacts.

The City received official approval of the update from the FAA, in October, 2003.

The CIP establishes a recommended program scope, schedule, and probable cost for implementing these improvements that are needed to accommodate the first of the Master Plan.

- Apron expansion
- Passenger terminal expansion
- New parking expansion
- Cell phone lot

AIRLINE AGREEMENTS

The Department of Aviation has commenced preliminary discussions with airline representatives regarding new use and lease agreements. The original use and lease agreements with the airlines were scheduled to expire September 30, 2008, but all have been extended on a month to month basis until the terms of a new use and lease agreement are agreed upon. If the parties are ultimately unable to come to agreement, the City could impose airport fees and terms of usage by ordinance. Under current City ordinance, any airline that does not have a written agreement to operate at the Airport must pay landing fees equal to double the rate paid by carriers who do have an agreement.

In addition, the Department of Aviation has entered into Operating Agreements with air cargo carriers serving ABIA and with certain charter passenger carriers and smaller passenger carriers. Carriers having Operating Agreements pay the same signatory rates as do carriers having Airline Use and Lease Agreements, but do not participate in setting airport fees and charges. The Operating Agreements have a shorter term (year to year) than the Airline Use and Lease Agreements. See "Certain Investment Considerations – Airline Industry – Effect of Bankruptcy on Airline Use and Lease Agreements."

The Department of Aviation will also enter into Airfield operating agreements with airlines, such as vivaAerobus, that operate from the new South Terminal which will obligate the airline to pay landing fees and PFCs to the City. Rent for the use of the South Terminal is paid to the operator, AIB One.

Rate-Making Approach at ABIA

The airlines agree to pay signatory airline rates and charges at ABIA calculated according to the rate-making procedures contained in the Airline Use and Lease Agreements, adjusted to include an allocated portion of debt service and coverage on all Airport System debt in the aeronautical rate base. The City believes that the rate-making methodology, costs included in the aeronautical rate base, and cost center allocation methodology assumed in the financial forecasts are fair and reasonable and substantially in conformance with the FAA Policy Regarding Airport Rates and Charges issued on January 30, 1995.

AIRPORT MANAGEMENT

Jim Smith, Executive Director of Aviation. Mr. Smith is responsible for the City's Department of Aviation. He served in executive capacities in Norfolk, Virginia and Dayton, Ohio before joining the City in 1984. Since coming to Austin he has served as Director of Planning and Development, Director of Public Works and Transportation, Assistant City Manager and now Executive Director of the Department of Aviation. He has a Bachelor of Science Degree from the City University of New York and a Master of Public Administration Degree from the University of Dayton.

Patti Edwards, Director, Operations & Maintenance. Ms. Edwards is responsible for all maintenance, operations, security and IT, which include buildings, grounds, airfield, roadways, motor pool and unimproved areas. She has been employed by the City's Aviation Department for over 14 years. She has been in her current position since November 2005. Ms. Edwards has over 25 years experience in Facilities and Project management. She is an active member of BOMA, ACI and AAAE.

Jamy Kazanoff, Assistant Director, Aviation Business Development & Customer Relations. Ms. Kazanoff is responsible for airport marketing, business development and community relations for ABIA. She oversees the areas of properties and contracts management, parking, advertising revenue, passenger air service development, passenger assistance programs, media relations and serves as the point of contact with many Austin-area business and community groups. She has been employed by the City's Aviation Department for ten years. Ms. Kazanoff has 25 years of marketing and business development experience, primarily serving in account executive positions with advertising agencies. She is actively involved in the Airports Council International (ACI) Marketing and Communications Committee, serving as Chairwoman in 2008. She is also active in ACI's International Program, Central Texas Regional Partnership, and Austin Hospitality Council. She is a graduate of The University of Texas at Austin with a Bachelor of Journalism degree.

Barbara E. Tipple, CPA, Assistant Director of Finance. Ms. Tipple is responsible for overall financial management of the Airport System, including financial accounting and reporting, day to day fiscal operations, budgeting, grants administration, airport rate setting and strategic planning. The City has employed her since 1982. She began working at Austin's airport in 1990 as a Senior Accountant and has been in her current position at the Airport System since 2006.

Prior to 1982, she was employed in public accounting. She is a graduate of Lamar University with a Bachelor of Arts in History, completed her accounting and business education at Texas A&M University and The University of Texas at Austin and is a Certified Public Accountant.

Shane Harbinson, Assistant Director, Planning & Engineering and Maintenance. Mr. Harbinson is responsible for Airport Development, Environmental and Maintenance Services. Mr. Harbinson has served in airport positions at Minneapolis St. Paul International, and Midland International in Midland Texas before joining the City of Austin in 1999. Since coming to Austin, he has served as Operations Coordinator, Noise Abatement Officer, Airport Planner, Manager of Airport Operations, Assistant Director of Operations and Security, and now Assistant Director of Planning & Engineering and Maintenance. He is a graduate of Saint Cloud State University, Saint Cloud Minnesota, with a Bachelor of Science in Aviation. He is an active in the American Association of Airport Executives and Airport's Council International.

AIRPORT STATISTICAL DATA

ABIA is the principal air carrier airport in the Austin-Round Rock Metropolitan Statistical Area ("MSA"), consisting of Hays, Travis, Bastrop, Caldwell and Williamson Counties. The Austin MSA population and economy generate the majority of the passengers enplaned at ABIA.

The Airport primary service area includes the Austin-Round Rock MSA plus Bell, Blanco, Burleson, Burnet, Caldwell, Fayette, Lee, Llano, and Milam counties. The limits of the primary service area are generally defined by the availability of airline service at air carrier airports in nearby cities such as Dallas/Fort Worth (192 miles), Houston (164 miles) and San Antonio (78 miles).

After the events of September 11, 2001, the Airport System has supplemented revenues available for the payment of operation and maintenance expenses and debt service through the transfer of funds from other available Airport sources, including specifically from the Airport Capital Fund. For the Fiscal Years ended September 30, 2002 through the Fiscal Year ended September 30, 2008, the Airport System transferred on average \$7.1 million annually to the Airport Operating Fund. As is the case with other airports around the country, Airport management continues to explore opportunities to increase non-airline generated revenues at the Airport (e.g., parking, concessions, real estate and other activities). Set forth below is a table showing the actual and budgeted transfers to the Airport Operating Fund.

Austin-Bergstrom International Airport Transfer from Airport Capital Fund to Airport Operating Fund

Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Budgeted</u>
\$7,326,653	\$7,066,367	\$6,820,511	\$6,879,187	\$7,146,363

The transfers to the Airport Operating Fund enable the City to satisfy the rate covenant described above as well as satisfying the tests governing the issuance of Additional Revenue Notes.

Major Economic Activity

For general information regarding the City and its economy, see APPENDIX A hereto.

AIRLINES AND MARKET SHARE

Table 1
List of Airlines

As of the date of this Official Statement, ABIA is being served by the following airlines.

Passenger Airlines

Allegiant Air
American Airlines
Atlantic Southeast Airlines, Inc.
Casino Express
Chautauqua Airlines, Inc.
Continental Airlines
Delta Air Lines
Frontier
JAZZ Air
JetBlue Airways
Mesa Airlines
Miami Air International
Northwest Airlines
Pace Airlines
Pinnacle Airlines
Skywest Airlines
Southwest Airlines
Trans State Airlines
United Airlines
US Airways
USA Jet Airlines
vivaAerobus

All-Cargo Airlines

Airborne Express
Amerflight
Ameristar Jet Charter Inc.
Astar Air Cargo
Baron Aviation
Federal Express
Lone Star Overnight
Martinaire, Inc.
United Parcel Service

Source: City of Austin Department of Aviation.

The following table presents the airlines' shares of enplaned passengers for Fiscal Years 1985, 1990, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007 and 2008.

Table 2
Airline Market Shares
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

<u>Airline</u>	<u>Share of Enplaned Passengers</u>										
	<u>Fiscal</u> <u>Year</u> <u>1985</u>	<u>Fiscal</u> <u>Year</u> <u>1990</u>	<u>Fiscal</u> <u>Year</u> <u>2000</u>	<u>Fiscal</u> <u>Year</u> <u>2001</u>	<u>Fiscal</u> <u>Year</u> <u>2002</u>	<u>Fiscal</u> <u>Year</u> <u>2003</u>	<u>Fiscal</u> <u>Year</u> <u>2004</u>	<u>Fiscal</u> <u>Year</u> <u>2005</u>	<u>Fiscal</u> <u>Year</u> <u>2006</u>	<u>Fiscal</u> <u>Year</u> <u>2007</u>	<u>Fiscal</u> <u>Year</u> <u>2008</u>
Southwest	35.0%	34.9%	37.9%	38.8%	37.6%	37.0%	36.6%	35.5%	36.5%	35.7%	36.1%
American	22.1%	20.8%	24.1%	23.0%	24.1%	25.2%	25.2%	26.2%	26.4%	26.0%	24.7%
Continental	8.3%	8.7%	10.0%	10.3%	11.2%	11.4%	11.6%	11.7%	12.0%	11.7%	10.7%
Delta	10.2%	14.8%	10.8%	9.5%	10.8%	8.9%	8.4%	8.6%	5.4%	5.0%	4.8%
Jet Blue	-	-	-	-	-	-	-	-	2.0%	2.7%	3.4%
Mesa	-	-	-	-	-	-	2.8%	3.3%	4.0%	2.8%	3.0%
Frontier (b)	-	-	-	-	1.4%	1.8%	2.2%	2.1%	2.2%	2.4%	2.5%
Skywest	-	-	-	-	-	-	-	3.0%	2.6%	1.9%	2.2%
United	3.7%	4.1%	5.6%	5.9%	5.8%	8.1%	2.1%	1.7%	1.9%	2.3%	2.1%
Express Jet (c)	-	-	-	-	-	-	-	-	-	1.2%	2.1%
US Airways (d)	3.4%	5.2%	3.8%	3.9%	3.5%	2.9%	2.2%	1.8%	1.3%	2.0%	1.9%
Northwest	-	2.8%	3.1%	3.2%	3.0%	3.4%	2.6%	3.5%	1.7%	1.6%	1.9%
Pinnacle	-	-	-	-	-	-	1.5%	0.7%	1.4%	1.2%	0.9%
Aero Mexico	-	-	-	-	-	-	-	-	0.1%	0.2%	0.2%
Casino Express	-	-	0.1%	-	-	-	0.1%	-	-	-	-
Air Canada	-	-	0.1%	-	-	-	-	-	-	-	-
Air Wisconsin	-	-	-	-	-	-	1.6%	-	-	-	-
Allegro	-	-	-	-	0.3%	-	-	-	-	-	-
American Eagle	-	-	0.6%	-	-	-	-	-	-	-	-
Braniff	0.4%	-	-	-	-	-	-	-	-	-	-
Eastern	2.2%	-	-	-	-	-	-	-	-	-	-
Pan American	1.0%	1.0%	-	-	-	-	-	-	-	-	-
Sun Country	-	-	0.2%	0.2%	-	-	-	-	-	-	-
Texas International	-	-	-	-	-	-	-	-	-	-	-
TranStar	9.2%	-	-	-	-	-	-	-	-	-	-
TWA	2.0%	2.5%	3.1%	3.2%	0.3%	-	-	-	-	-	-
USAir (e)	1.4%	1.1%	-	-	-	-	-	-	-	-	-
Vanguard	-	-	-	0.8%	1.2%	-	-	-	-	-	-
	83.1%	91.3%	95.9%	94.6%	97.8%	98.7%	96.9%	98.1%	97.5%	96.7%	96.5%
Commuters	<u>16.9%</u>	<u>8.7%</u>	<u>4.1%</u>	<u>5.4%</u>	<u>2.2%</u>	<u>1.3%</u>	<u>3.1%</u>	<u>1.9%</u>	<u>2.5%</u>	<u>3.3%</u>	<u>3.5%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.

(b) Frontier declared bankruptcy in April 08; this includes enplaned passengers both pre- and post-bankruptcy.

(c) Service commenced during FY2007.

(d) Formerly America West; name change occurred during FY2007.

(e) Discontinued service during FY1997.

Source: City of Austin, Department of Aviation.

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AIR CARGO ACTIVITIES

The following table sets forth the historical enplaned cargo activity for the period indicated.

Table 3
Historical Cargo Traffic
 (represented in tons)
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
 (For Fiscal Years Ended September 30)

Enplaned Cargo (in tons)				
<u>Fiscal Year</u>	Freight and <u>Express (b)</u>	<u>Mail</u>	<u>Total</u>	<u>Annual Increase/(Decrease)</u>
1985	3,405	3,208	6,613	-
1986	3,137	3,305	6,442	(2.6%)
1987	4,501	3,527	8,028	24.6%
1988	8,225	3,603	11,828	47.3%
1989	12,220	3,836	16,056	35.7%
1990	16,155	3,925	20,080	25.1%
1991	12,367	3,800	16,167	(19.5%)
1992	17,379	3,938	21,317	31.9%
1993	23,463	4,145	27,608	29.5%
1994	27,093	4,120	31,213	13.1%
1995	31,652	4,405	36,057	15.5%
1996	37,923	4,309	42,232	17.1%
1997	41,179	5,174	46,353	9.8%
1998	50,378	5,297	55,675	20.1%
1999	61,291	4,982	66,273	19.0%
2000	76,219	5,035	81,254	22.6%
2001	78,621	5,091	83,712	3.0%
2002	71,485	1,793	73,278	(12.5%)
2003	68,313	1,641	69,954	(4.5%)
2004	63,384	1,854	65,238	(6.7%)
2005	64,245	1,362	65,607	0.6%
2006	59,442	1,245	60,687	(7.5%)
2007	57,760	812	58,572	(3.5%)
2008	57,824	1,081	58,905	0.6%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.

(b) Includes small packages.

Source: City of Austin, Department of Aviation.

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The following table sets forth the percentage of total enplaned freight per all-cargo airline.

Table 4
Enplaned Freight Per All-Cargo Airline
Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

	Percentage of Total Enplaned Freight						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Federal Express	37.6%	40.2%	43.6%	44.3%	49.9%	46.2%	43.9%
ABX Air (d)	15.5%	17.4%	17.9%	18.2%	15.0%	16.4%	18.6%
UPS	10.2%	11.0%	12.0%	11.4%	17.6%	20.8%	21.5%
DHL/Astar	5.6%	5.4%	6.2%	6.3%	-	0.4%	2.3%
Baron Aviation	1.2%	1.5%	1.7%	1.7%	1.7%	1.8%	1.9%
Burlington/ATI (b)	0.7%	-	-	-	-	-	-
UPS Chain Supply Solutions (c)	1.0%	2.3%	2.9%	2.5%	1.4%	-	-
Eagle	-	-	-	-	-	-	-
Express One	2.7%	-	-	-	-	-	-
Custom Air	7.0%	9.7%	1.6%	-	-	-	-
Quest	8.6%	-	-	-	-	-	-
Other	<u>2.3%</u>	<u>3.8%</u>	<u>2.6%</u>	<u>3.7%</u>	<u>1.5%</u>	<u>1.4%</u>	<u>1.3%</u>
Subtotal	92.5%	91.3%	88.5%	88.1%	87.1%	87.0%	89.5%
Passenger Airlines	<u>7.6%</u>	<u>8.7%</u>	<u>11.5%</u>	<u>11.9%</u>	<u>12.9%</u>	<u>13.0%</u>	<u>10.5%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.

(b) Prior to July 2000 Air Transport International (ATI) was Burlington Air Express (BAX).

(c) Prior to May 2005, UPS Chain Supply operated as Menlo Forwarding and Emery Forwarding.

(d) Prior to FY 2007, ABX Air was operated as Airborne Express.

Source: City of Austin, Department of Aviation.

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ORIGIN AND DESTINATION MARKETS

Table 5
Domestic Origin-Destination Patterns and Airline Service
Scheduled Domestic Airlines
Austin-Bergstrom International Airport
12 Months Ended September 30, 2008

<u>Rank</u>	<u>City of Origin or Destination</u>	<u>Air Miles from Austin</u>	<u>Percent of Scheduled Airline Passengers</u>	<u>Daily Scheduled Nonstop Departures (b)</u>
1	Dallas/Fort Worth Love Field	183	5.8%	19
2	Los Angeles International	1,234	4.1%	5
3	Denver International	768	4.0%	9
4	Las Vegas International	1,083	3.5%	4
5	Chicago O'Hare	973	3.3%	9
6	San Jose, California	1,467	2.8%	3
7	Phoenix International	867	2.8%	8
8	John F. Kennedy New York	1,515	2.4%	4
9	Baltimore International	1,337	2.3%	2
10	Orlando International	992	2.1%	2
11	Houston Hobby	150	2.0%	6
12	Boston International	1,692	2.0%	1
13	Atlanta International	810	2.0%	7
14	El Paso, Texas	524	2.0%	3
15	Newark/New York	1,498	2.0%	2
16	San Francisco International	1,496	1.9%	2
17	San Diego International	1,157	1.9%	2
18	Seattle/Tacoma International	1,761	1.9%	1
19	Philadelphia International	1,426	1.7%	1
20	Dallas/Fort Worth International	179	<u>1.7%</u>	<u>15</u>
	Cities Listed		52.20%	105
	Other Cities		<u>47.80%</u>	<u>-</u>
			100.00%	105

Sources: Databank 1B – 10% survey data.

US Department of Transportation and BACK Aviation Solutions.

OAGback Schedules i-Net June 2008.

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HISTORICAL AIRLINE TRAFFIC

Table 6
Historical Airline Traffic
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

<u>Fiscal Year</u>	<u>Enplaned Passengers</u>	<u>Annual Percent Increase/(Decrease)</u>	<u>Aircraft Departures</u>		<u>Passenger Enplaned Per Departure</u>
			<u>Annual</u>	<u>Daily</u>	
1982	1,094,921	14.8%	19,393	53	56
1983	1,189,791	8.7%	22,015	60	54
1984	1,553,266	30.5%	30,406	83	51
1985	1,836,205	18.2%	34,382	94	53
1986	1,802,014	(1.9)%	30,854	85	58
1987	1,930,879	7.2%	33,231	91	58
1988	1,889,110	(2.2)%	31,441	86	60
1989	2,068,961	9.5%	37,323	102	55
1990	2,154,705	4.1%	39,918	109	54
1991	2,062,815	(4.3)%	36,300	99	57
1992	2,144,173	3.9%	36,176	99	59
1993	2,292,646	6.9%	36,759	101	62
1994	2,469,889	7.7%	40,900	112	60
1995	2,659,724	7.7%	46,944	129	57
1996	2,790,470	4.9%	48,756	134	57
1997	2,949,169	5.7%	42,292	116	70
1998	3,002,417	1.8%	43,721	120	69
1999	3,223,913	7.4%	44,318	121	73
2000	3,866,956	19.9%	45,411	124	85
2001	3,867,625	0.0%	45,294	124	85
2002	3,402,463	(12.0)%	41,960	115	81
2003	3,425,064	0.7%	43,752	120	78
2004	3,636,917	6.2%	46,401	127	78
2005	3,866,883	6.3%	54,713	150	71
2006	4,141,580	7.1%	53,828	147	77
2007	4,473,001	8.0%	57,468	157	78
2008	4,671,819	4.4%	59,860	164	78

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
Source: City of Austin, Department of Aviation.

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AIRCRAFT OPERATIONS

Historical aircraft operations from Fiscal Year 1982 through Fiscal Year 2008 are set forth on the following table.

Table 7
Historical Aircraft Operations
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

<u>Fiscal Year</u>	<u>Air Carrier</u>	<u>Air Taxi/Commuter</u>	<u>General Aviation</u>	<u>Military</u>	<u>Total Operations</u>
1982	34,757	15,644	131,378	6,765	188,544
1983	39,653	16,390	131,590	7,644	195,277
1984	56,464	14,648	150,325	8,462	229,899
1985	60,151	17,376	149,073	8,450	235,050
1986	60,317	11,093	133,691	7,671	212,772
1987	65,398	10,043	115,448	6,469	197,358
1988	62,647	11,577	108,939	7,088	190,251
1989	61,789	23,195	92,703	7,221	184,908
1990	61,353	28,892	95,602	7,149	192,996
1991	61,698	19,822	95,254	6,057	182,831
1992	63,627	19,030	97,616	6,523	186,796
1993	64,945	20,925	95,467	6,689	188,026
1994	71,531	22,539	92,953	5,018	192,041
1995	76,224	22,445	96,078	5,695	200,442
1996	80,136	21,200	107,450	6,269	215,055
1997	82,763	15,051	104,184	5,153	207,151
1998	87,435	14,470	95,460	4,131	201,496
1999	103,186	13,062	73,891	4,377	194,516
2000	99,631	16,416	82,747	5,063	203,857
2001	102,655	15,758	98,187	7,968	224,568
2002	93,206	17,628	97,431	8,333	216,598
2003	92,600	21,989	88,977	13,806	217,372
2004	91,346	25,777	85,452	15,691	218,266
2005	94,904	25,708	79,880	8,816	209,308
2006	95,170	25,020	80,928	7,381	208,499
2007	101,385	28,299	74,442	5,914	210,040
2008	107,233	30,991	75,874	5,253	219,351

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.

Source: 1980-1993: U.S. Department of Transportation, Federal Aviation Administration, "Air Traffic Activity", fiscal year editions.

1994-2008: City of Austin, Department of Aviation.

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AIRCRAFT LANDED WEIGHT

Historical aircraft landed weight at Robert Mueller Municipal Airport and Austin-Bergstrom International Airport from Fiscal Year 1982 through Fiscal Year 2008 are set forth on the following table.

Table 8
Historical Aircraft Landed Weight
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
 Fiscal Years 1982 – 2008
 (in 1,000-pound units)

<u>Fiscal Year</u>	<u>Passenger Airlines</u>	<u>All-cargo Airlines</u>	<u>Total</u>	<u>Percent Increase/(Decrease)</u>
1982	2,193,535	27,610	2,221,145	1.0%
1983	2,446,617	35,544	2,482,161	11.8%
1984	3,465,099	105,670	3,570,769	43.9%
1985	3,709,995	134,726	3,844,721	7.7%
1986	3,598,608	119,074	3,717,682	(3.3%)
1987	3,962,387	151,505	4,113,892	10.7%
1988	3,744,765	271,978	4,016,743	(2.4%)
1989	3,648,818	360,041	4,008,859	(0.2%)
1990	3,831,860	230,986	4,062,846	1.3%
1991	3,797,219	106,061	3,903,280	(3.9%)
1992	3,922,625	189,602	4,112,227	5.35%
1993	3,963,281	322,486	4,285,767	4.2%
1994	4,247,865	358,404	4,606,269	7.5%
1995	4,332,391	399,579	4,731,970	2.7%
1996	4,322,633	495,613	4,818,246	1.8%
1997	4,405,228	526,098	4,931,326	2.3%
1998	4,556,204	653,290	5,209,494	5.6%
1999	5,061,755	820,936	5,882,691	12.9%
2000	5,236,831	938,223	6,175,054	5.5%
2001	5,536,571	995,417	6,531,988	11.0%
2002	4,982,834	798,371	5,781,205	(6.4%)
2003	4,845,473	768,318	5,613,791	(2.9%)
2004	4,790,496	723,773	5,514,269	(1.8%)
2005	5,007,578	743,608	5,751,186	4.3%
2006	5,023,135	592,220	5,615,355	(2.4%)
2007	5,456,289	543,248	5,999,537	6.8%
2008	5,639,816	601,319	6,241,135	4.0%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
 Source: City of Austin, Department of Aviation.

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HISTORICAL FINANCIAL DATA

The City, as operator of the Airport System, currently accounts for its activities according to generally accepted accounting principles through an enterprise fund. The City's financial statements for the Fiscal Year ended September 30, 2006 are included as Appendix B hereto. The following table represents the historical operating results of the Airport enterprise fund for Fiscal Year 2004 through 2007 based on the published financial statements of the City, as reported on by the City's certified public accountants together with the audited results for the twelve months ended September 30, 2008.

TABLE 9
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings/Net Assets
City of Austin, Texas
Airport Fund
(Fiscal Year Ended September 30)
(in thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	Unaudited <u>2008</u>
Revenue					
User Fees and Rental	<u>\$ 65,361</u>	<u>\$ 68,282</u>	<u>\$ 71,496</u>	<u>\$ 79,871</u>	
Operating Revenues	<u>65,361</u>	<u>68,282</u>	<u>71,496</u>	<u>79,871</u>	
Expenses					
Operating Expenses before Depreciation	38,517	41,320	45,714	47,298	
Depreciation	<u>16,054</u>	<u>17,526</u>	<u>17,129</u>	<u>17,722</u>	
Total Operating Expenses	<u>54,571</u>	<u>58,846</u>	<u>62,843</u>	<u>65,000</u>	
Operating Income before Nonoperating Revenues (Expenses) and Operating Transfers	<u>10,790</u>	<u>9,436</u>	<u>8,653</u>	<u>14,851</u>	
Nonoperating Revenues (Expenses)					
Interest and Other Revenues	1,916	3,549	5,772	7,548	
Unrealized Gain on Investments	-	-	-	-	
Interest on Revenue Bonds and Other Debt	(22,497)	(21,963)	(17,058)	(16,501)	
Interest Capitalized during Construction	953	1,640	2,103	1,478	
Capital Contributions	-	15,566	16,017	7,900	
Passenger Facility Charges	10,555	13,938	15,977	16,691	
Amortization of Bond Issue Cost	(131)	(228)	(325)	(229)	
Other Nonoperating Expenses	(1,577)	(8,533)	(255)	(24)	
Total Nonoperating Revenues (Expenses)	<u>(10,781)</u>	<u>(11,597)</u>	<u>6,214</u>	<u>8,963</u>	
Income before Operating Transfers	9	(2,161)	14,867	23,814	
Operating Transfers:					
Operating Transfers In	-	-	-	-	
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Income before Extraordinary Loss	<u>9</u>	<u>(2,161)</u>	<u>14,867</u>	<u>23,814</u>	
Extraordinary Loss – Bond Debt Extinguishment	-	-	-	-	
Net Income	9	(2,161)	14,867	23,814	
Add Depreciation Transferred to Contributions	-	-	-	-	
Net Increase in Retained Earnings	6,126	13,405	30,884	-	
Retained Earnings at Beginning of Year, as Previously Reported	<u>323,193</u>	<u>329,319</u>	<u>342,724</u>	<u>373,608</u>	
Prior Period Adjustment	-	-	-	-	
Retained Earnings at Beginning of Year, as Restated	<u>\$323,193</u>	<u>\$329,319</u>	<u>\$342,724</u>	<u>\$373,608</u>	
Retained Earnings at End of Year	<u>\$329,319</u>	<u>\$342,724</u>	<u>\$373,608</u>	<u>\$405,322</u>	

TABLE 10
Revenue Detail by Fiscal Year
Austin-Bergstrom International Airport

	Fiscal Year 2004 <u>Actual</u>	Fiscal Year 2005 <u>Actual</u>	Fiscal Year 2006 <u>Actual</u>	Fiscal Year 2007 <u>Actual</u>	Fiscal Year 2008 <u>Actual</u>
Airline Revenue					
Landing Fees	\$16,634,349	\$17,363,322	\$14,765,760	\$17,747,794	
Terminal Rental & Other Fees	<u>15,095,918</u>	<u>14,774,534</u>	<u>15,676,333</u>	<u>16,920,220</u>	
Total Airline Revenue	\$31,730,267	\$32,137,856	\$30,442,093	\$34,668,014	
Non-Airline Revenue					
Parking	\$17,880,828	\$19,324,695	\$21,702,949	\$24,845,364	
Other Concessions	10,876,603	11,508,632	13,578,714	14,595,799	
Other Rentals and Fees	<u>4,878,253</u>	<u>5,310,406</u>	<u>5,771,806</u>	<u>5,761,439</u>	
Total Non-Airline Revenue	<u>\$33,635,684</u>	<u>\$36,143,733</u>	<u>\$41,053,469</u>	<u>\$45,202,602</u>	
Total Revenue	<u>\$65,365,951</u>	<u>\$68,281,589</u>	<u>\$71,495,562</u>	<u>\$79,870,616</u>	

AIRLINE INFORMATION

Revenues of the Airport System may be affected by the ability of the airlines operating at ABIA, individually and collectively, to meet their respective obligations under their respective lease and use agreements. Each of these airlines (or their respective parent corporations) is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, as of particular dates concerning each of the airlines operating at ABIA (or their respective parent corporations) is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20659, and at the SEC's regional offices at 219 South Dearborn Street, Chicago, Illinois 60604; 26 Federal Plaza, New York, New York 10278; and 5757 Wilshire Boulevard, Suite 500 East, Los Angeles, California 90036-3648 and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at the above address at prescribed rates. In addition, each airline operating at ABIA is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the "U.S. DOT"). Such reports can be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. DOT at prescribed rates.

CERTAIN INVESTMENT CONSIDERATIONS

General

Since the events of September 11, 2001, ABIA, as well as the rest of the aviation industry, has faced numerous challenges. Following the terrorist events, the aviation industry continued to face obstacles as airline traffic and revenue remained soft, the economy weakened, air traffic demand continued to decrease, and airlines' expenses continued to increase. The aviation industry continues to face obstacles including hostilities in Iraq, elevated oil prices, increased fare discounting, and escalating security costs. All of this has had an impact on the operational levels at airports across the country, including ABIA. While the economy and the travel sector have largely recovered from the events of September 11th, and their aftermath, the National economy is facing new challenges, particularly in the credit markets. Unprecedented fuel prices have affected airline financial performance in 2008, and will likely do so in the future. While fuel prices have abated since their peak in the fall of 2008, the airlines have been faced with new challenges arising out of the general downturn in the economy that was triggered by events in the credit and other markets. The City and the Department of Aviation have addressed and will continue to respond to these series of challenges.

The principal of and interest on the Revenue Bonds (including the Series A Notes) is payable pursuant to the Ordinance solely from the Net Revenues of the Airport System and moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The ability to pay debt service on the Series A Notes will depend on the receipt of sufficient Gross Revenues, including the receipt of PFC (hereinafter defined) revenues, a portion of which the City has covenanted in the Ordinance to make available for payment of the Prior Lien Bonds and the Revenue Bonds.

The Airport System's ability to generate Gross Revenues, including any PFC revenues, depends upon sufficient levels of aviation activity and passenger traffic at ABIA. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand. A weak economy, war and the threat of terrorist activity reduces demand for air travel. To the extent the Airport System is unable to make up for revenue shortfalls, the City's ability to pay debt service on the Revenue Bonds may be adversely affected.

In considering the matters set forth in this Remarketing Memorandum, prospective investors should carefully review all investment considerations set forth throughout this Remarketing Memorandum, and should specifically consider certain risks associated with the Series A Notes, which are Revenue Bonds under the terms of the Ordinance. There follows a discussion of some, but not necessarily all, of the possible considerations and risks which should be carefully evaluated by prospective purchasers of the Series A Notes prior to purchasing any Series A Notes. The Series A Notes may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the Series A Notes and should confer with their own legal and financial advisors before considering a purchase of the Series A Notes.

Passenger Facility Charges

Application. Under the Aviation Safety and Capacity Act of 1990 (the "PFC Act"), as modified by the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century ("AIR-21"), the Federal Aviation Administration ("FAA") may authorize a public agency to impose a Passenger Facility Charge ("PFC") of \$1.00, \$2.00, \$3.00, \$4.00, or \$4.50 on each passenger enplaned at any commercial service airport controlled by the public agency, subject to certain limitations. On December 20, 1994, the Department of Aviation filed with the FAA a PFC application totaling \$337.8 million for funding a portion of the construction and the financing costs related to ABIA. The scope of the application, to impose and use a \$3.00 Passenger Facility Charge, included construction costs of a passenger terminal complex, airfield facilities, and landside facilities on a pay-as-you-go basis and the financing costs associated with these Passenger Facility Charge qualifying scopes of work. The FAA approved application number 95-03-C00-AUS on February 8, 1995 for a total of \$333,232,479. PFC collections authorized by this application began in August, 1995. Amounts totaling \$27.2 million, collections through September, 1998 together with over collections posted on two earlier applications, were used towards the actual construction costs of the PFC qualifying scopes of work. Beginning October, 1998, interest earned and Passenger Facility Charges collected were used for the debt costs associated with the Passenger Facility Charge qualifying scope of work. **As of September, 2008, Passenger Facility Charge collections and interest earned on collections totaled \$157.9 million.**

The Aviation Department received approval from the FAA in 2004 amending its current outstanding PFC application to an increase in (i) the PFC collection rate from \$3.00 to \$4.50, and the PFC eligibility amount of the debt service related to the original project funding for the construction of ABIA, effective April 1, 2004. In September 2004, the FAA approved the \$4,125,000 application to impose and use PFC revenue for the installation of the EDS machines and the associated baggage handling system. The proceeds of the Passenger Facility Charges currently imposed by the City are not part of the Net Revenues pledged by the City to the payment of Revenue Bonds, including the Series A Notes. However, in the Ordinance, the City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge so imposed and collected by the City for the payment of debt service on the Prior Lien Notes and the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of such passenger facility charges will not reduce the forecast coverage of Debt Service Requirements with respect to the Prior Lien Notes and the Revenue Bonds by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%. See APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Use of Passenger Facility Charges."

Sufficiency. The Airport System's ability to collect PFC revenues will vary depending on the actual number of passenger enplanements at ABIA. If the number of enplaned passengers at ABIA falls below projections, actual PFC revenues will fall short of projections. Such a shortfall in PFC collections could have an adverse affect on the timely payment of debt service on Series A Notes secured by a pledge of PFC revenues. This adverse impact could be direct or indirect, if the PFC shortfall results in sufficient increases in landing fees as to impact negatively ABIA's desirability to the airline industry and thus ultimately impact the collection of landing fees at ABIA. While passenger traffic fell after September 11, 2001, traffic at the Airport has recovered resulting in record enplanements in the last four fiscal years. There can be no assurance as to what passenger traffic, and ABIA revenues, will be in the future.

Availability. The authority to impose and use PFCs is subject to the terms and conditions of the PFC Act, AIR-21 and the related regulations thereto. Failure to comply with the requirements of applicable law, such as the failure to use PFCs strictly for approved PFC projects, may cause the FAA to terminate or reduce the Airport System's authority to impose and collect PFCs. In addition, notwithstanding FAA regulations requiring airlines to collect PFCs to account for PFC collections separately and indicating that those PFC collections are to be regarded as funds held in trust by the collecting airline for the beneficial interest of the public agency imposing the PFC, in the event of a bankruptcy proceeding involving a collecting airline, there is the possibility that a bankruptcy court could hold that the PFCs in the airline's custody are not to be treated as trust funds and that ABIA is not entitled to any priority over other creditors of the collecting airline as to such funds. Also, there is no assurance that the PFC Act, AIR-21, or any other relevant legislation or regulation will not be repealed or amended to adversely affect the Airport System's ability to collect PFCs. The occurrence of any of these events could have an adverse impact on the timely payment of debt service on Series A Notes secured in part by the pledge of PFCs.

No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the City, or that the Airport System will collect such PFC revenues in amounts or at times sufficient to pay debt service. The amount of actual PFC revenues collected, and the rate of collection, will vary depending on the actual levels of qualified passenger enplanements at ABIA, and will not necessarily correlate in any way to the debt service requirements of the Series A Notes to which PFC revenues have been pledged. Regardless of the amount of PFC revenues, the City will be able to apply such revenues to pay debt service only to the extent the City applied bond proceeds to pay the costs of PFC approved projects described in the PFC application that was authorized by the FAA. In addition, the FAA may terminate ABIA's ability to impose PFCs, subject to formal and informal procedural safeguards, if (1) ABIA fails to use its PFC revenues for approved projects in accordance with the FAA's approval, the PFC Act or the regulations promulgated thereunder, or (2) ABIA otherwise violates the PFC Act or regulations.

[DCP: You may want to put something in here about the possibility of Congress increasing the cap on PFC's to \$7.00 as part of the FAA reauthorization bill.]

Airline Industry

General Factors Affecting Air Carrier Revenues. The revenues of both the Airport System and the airlines serving ABIA may be materially affected by many factors including, without limitation, the following: declining demand; service and cost competition; mergers; the availability and cost of fuel and other necessary supplies; high fixed costs; high capital requirements; the cost and availability of financing; technological changes; national and international disasters and hostilities; the cost and availability of employees; strikes and other employee disruptions; the maintenance and replacement requirements of aircraft; the availability of routes and slots at various airports; litigations liability; regulation by the federal government; environmental risks and regulations; noise abatement concerns and regulation; deregulation; federal and state bankruptcy and insolvency laws; acts of war and terrorism; world health concerns such as the outbreak of SARS and other risks. Many airlines, as a result of these and other factors, have operated at a loss in the past and several have filed for bankruptcy, ceased operations and/or have merged with other airlines. Historically, the airline industry's results have correlated with the performance of the economy. The September 11, 2001 attacks, the war in the Middle East and their aftermath have resulted in a further adverse effect on airline industry earnings. Several major carriers filed for federal bankruptcy protection, including US Airways (twice), Delta, Northwest, United and Frontier. With the exception of Frontier, whose Chapter 11 case is still in progress, each of these major carriers successfully reorganized under Chapter 11. Vanguard Airlines also has sought federal bankruptcy protection but ceased to operate. Further bankruptcy filings, liquidations or major restructuring by members of the airline industry remain possible. In 2008, Delta and Northwest finalized their merger. There is the likelihood of additional consolidation within the airline industry, with reports of possible airline mergers including United and Continental, among others. If two or more existing carriers operating at the Airport were to merge, it is possible that the merged entity may seek to consolidate its

space at the airport by reducing the amount of gate, ticket counter, office and operations space it rents from the Department of Aviation. While this may result in some reduced rental income, it will also make it easier for the Airport to attract new entrants, who may have been deterred by a lack of available space in the Barbara Jordan Terminal.

General Factors Affecting Airline Activity. Numerous factors affect air traffic generally and air traffic at ABIA specifically. Demand for air travel is influenced by factors such as population, levels of disposable income, the nature, level and concentration of industrial and commercial activity in the service area and the price of air travel. The price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure and hubbing strategies of the airlines serving the airport, the willingness of competing airlines to enter into an airport market, the cost of operating at an airport, the price of fuel and any operating constraints (due to capacity, environmental concerns or other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport. In addition, the onset of war and the threat of renewed terrorist attacks may dampen air traffic. Although the City has developed contingency plans that make assumptions as to factors described above and suggest a prudent response to such events, the City may anticipate but can never predict the occurrence of any particular event or trend that could adversely impact airline traffic and/or Airport System revenues.

Effect of Bankruptcy on Airline Use and Lease Agreements. The profitability of the airline industry has declined drastically since 2000, with most airlines, until recently, posting significant losses every fiscal quarter since the beginning of 2001. As a result, several major carriers sought relief in bankruptcy. All of the major air carrier that filed for bankruptcy protection have successfully emerged, and no active airline at ABIA is currently operating in bankruptcy, except for Frontier Airlines, whose Chapter 11 case is still pending.

When an airline seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the City (1) within 60 days or later, if ordered by the court, with respect to its Airline Use and Lease Agreement or other leases of rental property, or (2) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption, the airline would be required to cure any prior defaults and to provide adequate assurance of future performance under the applicable Airline Use and Lease Agreement or other agreements. Rejection of an Airline Use and Lease Agreement or other agreement or executory contract would give rise to an unsecured claim of the City for damages, the amount of which in the case of an Airline Use and Lease Agreement or other agreement is limited by the Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year of rent or (2) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of an Airline Use and Lease Agreement or other agreement could be considerably less than the maximum amounts allowed under the Bankruptcy Code. Except for costs allocated to such airline for usage and rental of the terminal, concourse and ramps, amounts unpaid as a result of a rejection of an Airline Use and Lease Agreement or other agreement in connection with an airline in bankruptcy, such as airfield costs and costs associated with the baggage claim area, would be passed on to the remaining airlines under their respective Airline Use and Lease Agreements, although there can be no assurance that such other airlines would be financially able to absorb the additional cost. Additionally, during the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the City on account of goods and services provided prior to the bankruptcy. Thus, the City's stream of payments from a debtor airline would be interrupted to the extent of a pre-petition goods and services, including accrued rent and landing fees. Each of the major carriers operating at the Airport that sought protection under the Bankruptcy Code assumed its leases and other executory contracts with the City, and cured all defaults, pursuant to its Plan of Reorganization. Frontier Airlines filed a motion with the Bankruptcy Court to assume its use and lease agreement for ABIA, which is scheduled to be heard on February 6, 2009.

Uncertainties of the Airline Industry. The City's ability to derive revenues from its operation of ABIA depends on many factors, many of which are not subject to the City's control. Revenues may be affected by the ability of the airlines, individually and collectively, to meet their respective obligations under the Airline Use and Lease Agreements.

The airline industry has undergone significant changes including airline mergers, acquisitions, bankruptcies and closures. In addition, the financial results of the airline industry have been subject to substantial volatility since deregulation. The airline industry accumulated substantial losses from 1990 to 1994, before improving in 1995. The airline industry was generally profitable from 1995 to 1999. However, recent events, including the September 11, 2001 attacks, the general economic downturn in the industry and the war in the Middle East, have triggered record losses and caused the industry's worst financial performance in history. While the airline industry has largely recovered from the events of September 11th, and its aftermath, unprecedented high fuel prices, and recent adverse developments in the credit markets will continue to present new challenges to the airline industry.

The financial strength and stability of airlines serving ABIA are key determinants of future airline traffic. In addition, individual airline decisions regarding level of service, particularly hubbing activity, at ABIA will affect total enplanements. No assurance can be given as to the levels of aviation activity that will be achieved by ABIA. There is no assurance that ABIA, despite a demonstrated level of airline service and operations, will continue to maintain such levels in the future. The continued presence of the airlines serving ABIA, and the levels at which that service will be provided, are a function of a variety of factors. Future airline traffic of ABIA will be affected by, among other things, the growth or decline in the population and the economy of the Airport Service Region and by national and international economic conditions, acts of war and terrorism, federal regulatory actions, airline service, air fare levels and the operation of the air traffic control system.

Recession and Other Economic Considerations

The Airport System has seen a reduction in the level of enplanements since the credit markets began to experience significant difficulties beginning in the fall of 2008. Austin-Bergstrom International Airport's first quarter 2009 enplanements have fallen 4.5% when compared with the first quarter 2008 enplaned activity. *[Airport staff should note the changes in some measurable way, e.g., percentage reduction over prior year or prior quarter, something along those lines]*. The current economic recession is expected to be of a duration not encountered in many years, and the City expects that airport revenues will be negatively impacted as a result. At this time, the City is uncertain as to the extent revenues may be negatively affected by the national and regional economic downturn, and for how long, as well as how operations at the ABIA will be affected, including whether the contemplated expansion at the South Terminal will proceed as planned, to what extent delays may occur in implementing the Five Year Capital Improvement Program, and the level of reductions of scheduled air service that may occur.

The State of Texas is doing better than the rest of the nation economically. Major Texas cities are showing less economic decline than the rest of the nation. As a result, Texas airports have experienced less of a decline in passenger activity than the rest of the nation's airports. The Austin airport's passenger activity is doing relatively well.

LITIGATION

It is the opinion of the City Attorney and ABIA management that there is no pending litigation against the City that would have a material adverse financial impact upon ABIA or its operations.

TAX EXEMPTION

Bond Counsel stated in an opinion (the "Original Opinion") dated February 24, 1998, that, as of such date, (i) interest on the Series A Notes was excludable from gross income for federal income tax purposes under existing law and (ii) the Series A Notes were "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Series A Notes was an item of tax preference that was includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations under existing law. Delivery of the remarketed Series A Notes is subject to the receipt of the opinion of Bond Counsel to the effect that the conversion of the interest rate on the Series A Notes pursuant to the Ordinance does not in and of itself adversely affect the exclusion from gross income for federal income tax purposes of interest on any Series A Note under existing law.

Except as stated above, Bond Counsel has expressed in the Original Opinion and will express in connection with the conversion, no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Series A Notes.

Bond Counsel's Original Opinion assumed continuing compliance with the covenants of the Ordinances pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series A Notes for federal income tax purposes and, in addition, relied on representations by the City, the City's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Underwriters, respectively, which Bond Counsel did not independently verify. If the City failed or fails to comply with the covenants in the Ordinances or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Series A Notes could become taxable from the date of delivery of the Series A Notes, regardless of the date on which the event causing such taxability occurs.

Bond Counsel has not been asked to undertake and has not undertaken any review or investigation of, and has not been asked to express and does not express any opinion concerning, the original or continuing treatment of the interest on the Series A Notes as excludable from gross income for federal income tax purposes except insofar as the conversion of the interest rate on the Series A Notes may affect the excludability of interest on the Series A Notes. Thus, in providing the opinion set forth above, Bond Counsel has assumed without investigation that interest on the Series A Notes was and continues to be excludable from gross income for federal income tax purposes immediately prior to the conversion of the interest rate on the Series A Notes.

The Code imposes an alternative minimum tax on the “alternative minimum taxable income” of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual’s regular income tax. Generally, the alternative minimum tax rate for individuals is 26 percent of such taxable excess as does not exceed \$175,000 plus 28 percent of so much of such taxable excess as exceeds \$175,000. The Code also imposes a 20 percent alternative minimum tax on the “alternative minimum taxable income” of a corporation, if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on “private activity bonds,” such as the Series A Notes, issued after August 7, 1986. Accordingly, the Original Opinion stated that interest on the Series A Notes is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations and the environmental tax imposed on corporations.

Furthermore, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series A Notes, received or accrued during the year.

Prospective purchasers of the Series A Notes should also be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax exempt interest such as interest on the Series A Notes. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel’s opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the “Service”); rather, such opinion represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Series A Notes. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series A Notes could adversely affect the value and liquidity of the Series A Notes during the pendency of the audit regardless of the ultimate outcome of the audit.

OTHER RELEVANT INFORMATION

Ratings

Series A Note Short Term Ratings		Bank Ratings	
P-1	Moody’s Investors Service	Aa1/P-1	Moody’s Investors Service
A-1+	Standard & Poor’s Corporation	AA-/A-1+	Standard & Poor’s Corporation

A rating reflects only the view of the rating agency assigning such rating, and an explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that any of the ratings will continue for any given

period of time or that any of the ratings will not be revised downward or withdrawn entirely by any such rating agency if, in its judgment, circumstances so warrant.

Legal Investments and Eligibility to Secure Public Funds in Texas

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Series A Notes for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Series A Notes for such purposes. The City has made no review of laws in other states to determine whether the Series A Notes are legal investments for various institutions in those states.

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Series A Notes (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code (which is set forth in the Texas Business & Commerce Code) applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Series A Notes are eligible to secure deposits of any public funds of the State of Texas, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256 and referred to as the "PFIA"), the Series A Notes may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such Series A Notes are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Series A Notes are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

Legal Investments

The City invests its available funds in investments authorized by Texas law and in accordance with investment policies approved by the City Council. Both Texas law and the City's investment policies are subject to change.

Under Texas law, the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA that are issued by or through an institution that either has its main office or a branch in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than

“AAA”, “AAA-m” or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

Political subdivisions such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City’s name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

Effective September 1, 2005, the City, as the owner of a municipal electric utility that is engaged in the sale of electric energy to the public, may invest funds held in a “decommissioning trust” (a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation) in any investment authorized by Subtitle B, Title 9, Texas Property Code (commonly referred to as the “Texas Trust Code”). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution.

The City may also contract with an investment management firm registered under the Investment Advisor Act of 1940 (15 U.S.C. Section 80b.1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the City retains ultimate responsibility as fiduciary of its assets.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also that address the quality and capability of investment personnel. The policy includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements

and (b) State law. No person may invest City funds without express written authority of the City Council or the Chief Financial Officer.

Additional Provisions

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered representative of firms seeking to sell securities to the City to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; and (5) provide specific investment training for the Chief Financial Officer, Treasurer and Investment Officers.

Legal Opinions

In connection with the original issuance of the Series A Notes, the City has furnished a complete transcript of proceedings incident to the authorization and issuance of the Series A Notes, including the unqualified approving legal opinions of the Attorney General of Texas approving the Series A Notes and to the effect that the Series A Notes are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel.

Financial Advisor

The PFM Group ("PFM"), Austin, Texas, is Financial Advisor to the City in connection with the Series A Notes. PFM, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Series A Notes.

Continuing Disclosure of Information

The Series A Notes are exempt from the continuing disclosure requirements of Rule 15c2-12 although the City has made an undertaking with respect to continuing disclosure with respect to the Series 2005 Bonds – CUSIP pre-fix numbers 052398 DM3, 052398 DN1 and 052398 DP6. The City is in compliance with all of its undertakings for continuing disclosure.

Forward-Looking Statements

The statements contained in this Remarketing Memorandum and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Remarketing Memorandum are based on information available to the City on the date hereof, and the City assumes no obligations to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Remarketing Memorandum will prove to be accurate.

Miscellaneous Information

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Remarketing Memorandum are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. This Remarketing Memorandum, and the execution and delivery of this Remarketing Memorandum, were authorized by the City Council.

/s/

Mayor

City of Austin, Texas

ATTEST:

/s/

City Clerk

City of Austin, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

General Information

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Councilmembers. The Mayor and Councilmembers are elected at large for three-year staggered terms with a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs.

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with a population of more than 732,000 in 2007. Over the past ten years, Austin's population has increased by approximately 124,000 residents, or 14.7 percent. Geographically, Austin consists of approximately 297 square miles. For the fiscal year ended September 30, 2007, the estimated median household income and per capita income for the Austin-Round Rock Metropolitan Statistical Area (MSA) were \$42,263 and \$38,243, respectively.

Austin is frequently recognized as a great place to live for all ages, from young to retired: Forbes.com lists Austin as one of the Best Places for Singles because of nightlife, culture and low cost of living, and *AARP The Magazine* names Austin as one of the top four cities to watch as a retirement community.

Austin is also a great place for work, entertainment and healthy living. Moody's Economy.com rates Austin as one of the best places for business in the U.S., and *MovieMaker* magazine names Austin as the Top City in America to live and make movies. Austin offers a wide variety of entertainment, with music as a special element. Known as the "Live Music Capital of the World," Austin has more than 120 live music venues and is host to the annual South by Southwest and Austin City Limits music festivals. Austin's many public parks, exercise facilities and low stress factors lead *Latina Magazine* to rank Austin tenth of the top 25 healthiest cities. MSN.com lists Austin among America's Greenest Cities, based on the City's green energy program and climate protection plan.

The City also offers a broad range of educational opportunities. Austin is a highly educated city, with approximately 43 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 27 percent for the U.S. as a whole. With its seven institutions of higher learning and more than 117,000 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the largest public university in the nation, is known as a world-class center of education and research.

Recent Economic Performance

Austin's economic growth continued during 2007, with increased tourism and low unemployment rates. Hotel occupancy rates averaged over 69%, resulting in increased bed tax revenues of approximately 15% from the previous year. Forbes magazine credits a strong economy to the combination of high-tech employers and engineering talent provided by the University of Texas. Since 1998, employment in Austin increased by more than 151,000 jobs. The Bureau of Labor Statistics reports the 2007 Austin MSA employment base at 826,000, a gain of more than 10,000 over 2006. Unemployment continued to remain low, up slightly from 3.3 percent in 2006 to 3.6 percent at the end of 2007.

The State of Texas reported that the state economy grew more slowly in 2007 than during 2006, but still added more jobs than any other state. For the first time since 2001, the Texas unemployment rate dropped below the national average during 2007. According to the Bureau of Labor statistics, Texas ended the year with an unemployment rate of 4.2 percent. The State Comptroller attributes the comparatively better performance of the Texas economy to the U.S. economy to a greater concentration of the strong oil and gas industry and a housing market that has dropped less abruptly than the national average.

The national economy continued to cool during 2007, hampered by subprime mortgage losses, drops in housing sales and construction, and higher fuel costs. The Bureau of Labor Statistics reports the unemployment rate fluctuated between 4.4 and 4.8 percent most of the year, and ended the year at 5 percent. Inflation increases during 2007 were similar at the State and national levels. The Texas Comptroller's *Fiscal Notes* reported the Texas Consumer Price Index

(CPI-U) increased four percent from December 2006 to 2007, with a corresponding increase at the national level of 4.1 percent in December. The Bureau of Labor Statistics cited rising fuel, food and medical care costs as the primary sources of the increases at the national level.

Home sales are an important indicator of the local and national economy. In the Austin market, annual home sales declined, but remained stronger than the national average. Data compiled by the Real Estate Research Center at Texas A&M shows the percent change in Austin sales declined by 7.6 percent, with an ending inventory of 4.2 months. Texas sales show similar decreases, with annual home sales declining 6.1 percent, and an ending inventory of 5.7 months. The total nationwide housing inventory at the end of the year was more than a nine month supply, compared to about half that amount in Austin.

Economic Outlook

For several years, the Austin-area economy has been one of the most rapidly growing in the nation. One of the region's leading economists, Angelos Angelou, forecasts modest job growth for Austin in 2008, with growth in services, trade and government. The area's population is expected to grow by 85,000 over the next two years. The national real estate crunch is likely to have the most significant impact on the local economy. The local building industry has reacted to national concerns, and cut back on housing starts. This cut back, combined with expected growth, should result in a strong demand for rental property.

Southwest Economy, published by the Federal Reserve Bank of Dallas, expects the Texas economy to encounter lower economic growth in 2008, but still perform better than the nation. Texas should experience modest job growth. Businesses will continue to be attracted to Texas due to a relatively low cost of living. To its advantage, Texas is one of the few states that gains from high energy prices.

Long-term Financial Planning

A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool in developing the following year's operating budget. In recent years, the City emphasized structural budgeting, which simply means not spending any more in a given year than collected in revenue. Standard and Poor's recognized Austin's sound financial management when the rating agency upgraded the City's general obligation bond rating to AAA status in January 2008.

The FY 2007-2008 Budget identified the most significant cost driver facing the General Fund as public safety staffing policies – maintaining 2.0 police officers per 1,000 population and enhanced task force staffing in the Austin Fire Department, as well as public safety labor contracts. Other cost factors are increased operations and maintenance costs for new or expanded facilities, additional street maintenance and rising personnel costs. The FY 2007-2008 budget authorized almost \$23 million of the budget stabilization reserves to address costs due to growth trends, new investment in core services, replacement of critical equipment and other one-time needs. The Approved Budget projects budget reserves of \$70 million at the end of 2008.

Austin includes several enterprise activities. A key enterprise is Austin Energy, which is the ninth largest U.S. public power utility in customers served, according to the latest available data from the American Public Power Association. The utility has over \$1.1 billion in annual revenues, nearly 389,000 retail metered customers and almost 11,000 miles of overhead and underground distribution lines. The utility has a well rounded generation portfolio with adequate capacity to meet native load. The budget includes funding for 100 megawatts of additional peaking generation capacity at Sand Hill which is expected to be online in 2009.

The City enterprise activities also include the Austin Water Utility, which provides water and wastewater services. The FY 2007-2008 operating expense budget of \$394.7 million provides for increased funding for water conservation, environmental protection, and repair contracts to improve response times for leaks and breaks. The five-year forecast projects an average growth in base revenue of two percent annually. The Utility projects debt service to increase over the next five years to fund capital improvements estimated at \$1.3 billion.

Other enterprise funds and their FY 2007-2008 expense budgets include Aviation (\$75.6 million), Convention Center (\$54.9 million) and Solid Waste Services (\$57.8 million).

Major Initiatives

The City of Austin's vision of being the most livable city in the country means that Austin is a place where all residents participate in its opportunities, its vibrancy and its richness of culture and diversity.

Austin's City Council began defining its policy priorities in the early 1990s. In April 2007, the City Council adopted four priorities:

- Rich social and cultural community
- Healthy, safe city
- Vibrant urban fabric
- Sustainable economic development and financial health

These Council priorities serve as an organizing framework for how the City does business, providing the continuity and direction needed to develop business plans that build upon each other, year after year, to help achieve longer-ranging goals. The current status of a few key initiatives are described below:

Waller Creek Tunnel Project. This project is a stormwater bypass tunnel that will include the stretch of Waller Creek from Waterloo Park to Lady Bird Lake. The project will take more than one million square feet of prime downtown land out of the floodplain and allow denser development. In March 2007, the Travis County Commissioners Court voted to join the City of Austin in the creation of a Tax Increment Financing District to fund the construction of the tunnel. The project has received the endorsement of the community, as well as key stakeholder groups. Estimated project cost at June 2007 was \$127,547,000 plus operations and maintenance costs. The four-year construction process is expected to begin in August 2010.

Zero Waste Master Plan. In January 2006, the City Council adopted guiding principles for the delivery of solid waste services. The Solid Waste Services Department, working with the Solid Waste Advisory Commission and other area solid waste representatives, is charged with developing a 50-year waste management plan to address landfill availability and waste reduction issues. In November 2007, the City Council approved a consultant contract to develop a zero waste plan for the City of Austin and surrounding regions, including Travis, Williamson, Bastrop, Caldwell, Hays, Blanco and Burnet counties. The consultant will take into consideration current and planned public and private solid waste infrastructure, as well as the City of Austin's Climate Protection Program. Recommendations developed through this process will be integral to achieve the U.N. Urban Environmental Accord's goal to reduce by 20% the per capita solid waste disposal to landfills by 2012 and zero waste by 2040.

Redevelopment of Green Water Treatment Plant. The Thomas C. Green Water Treatment Plant, the City's oldest water treatment plant, is reaching the end of its useful life. Located on the west edge of Downtown, a former warehouse and industrial district, it is now surrounded by a rapidly developing mixed-use urban neighborhood. The site's location between the City Hall / Second Street Retail District and the Seaholm Redevelopment makes it a strategic opportunity in the City's Downtown Redevelopment initiatives.

Austin Climate Protection Plan. Austin City Council passed the Austin Climate Protection Plan in February 2007. The plan directs staff to take the following actions to make Austin a carbon neutral community by the year 2020:

- City of Austin facilities, fleets and operations will be carbon-neutral by 2020.
- Implement the most aggressive utility greenhouse gas reduction plan in the nation through dramatic increases in conservation, efficiency and renewable programs. Require carbon neutrality on any new generation. Establish a CO₂ cap and a reduction plan for all utility emissions.
- Austin building codes for both residential and commercial properties will be the most energy efficient in the nation.
- Develop a comprehensive plan to reduce greenhouse gas emissions from sources community-wide.
- Provide mechanisms for all businesses and individuals to reduce their carbon footprint to zero.

Status as of June 2007, includes the following:

- Austin Energy to provide renewable energy for all city facilities by 2009.
- Austin Energy's baseline greenhouse gas inventory is complete and certified by California Climate Action Registry; Austin Water Utility is working on a similar baseline inventory.
- The City's Fleet Services Department is developing a baseline inventory of all city vehicles and continues to purchase alternative fueled or hybrid vehicles.

Affordable Housing. The City manages housing gap financing programs and direct housing services programs under the framework of the Housing Continuum and S.M.A.R.T Housing™. The City Council has also taken action to enable the creation of new and additional tools to achieve deeper affordable housing levels with the following major initiatives:

- Affordable Housing Incentives Task Force. The City Council appointed this task force to explore ways to provide incentives for the construction of affordable housing in Austin. In May 2007, the task force reported to the Council, followed by staff recommendations. These include key core values of deeper affordability targets, long-term affordability, and geographic dispersion, as well as zoning incentives. Categories include the Central Business District, Downtown Mixed Use, Multi-Family, and Single Family.
- General Obligation Bonds. In November 2006, citizens of Austin approved the use of \$55 million of general obligation bonds to increase homeownership and rental opportunities for low-to-moderate income households. The City Council approved a process for allocating housing bond funds and three categories by which bond funds can be accessed, within prescribed limits. In April 2007, the City Council approved the Stoneridge redevelopment project, the first project for the housing bonds.
- Other City Council Affordable Housing Initiatives include Vertical Mixed Use Developments, Affordable Housing Partnership Agreements (Green Water Treatment Redevelopment), Transit Oriented Developments, and Downtown Affordable Housing.

OTHER

Financial Policies

To help ensure that the City's financial resources are managed in a prudent manner, the City has adopted a comprehensive set of Financial Policies. These policies are reviewed as part of the annual budget process and are published in the Approved Budget.

Internal Controls

City management is responsible for establishing, implementing, and maintaining a framework of internal controls designed to ensure that City assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The annual operating budget is proposed by the City Manager and enacted by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2007 CAFR, the City continues to meet its responsibility for sound financial management.

Cash Management

The City's investment policy is to minimize credit and market risk while maintaining a competitive portfolio yield. Cash balances of all City funds are invested in consideration of five factors: safety, term, liquidity, market exposure, and rate of return. Cash balances of most funds, except for debt service and other legally restricted funds, are pooled for investment purposes. The City's investments are made in accordance with the Texas Public Funds Investment Act and the City of Austin Investment Policy. During 2007, the City's cash resources were invested in local government investment pools and U.S. Treasury and Agency issues.

Risk Management

The City maintains internal service funds to account for its risk of loss associated with torts and employee and workers' compensation benefits. In addition, the City continues to be self-insured for liabilities for most health benefits, third-party claims, and workers' compensation.

Pensions

The City participates in three contributory, defined benefit retirement plans for City employees. The plans are authorized by State Legislation, which governs the benefit and contribution provisions.

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

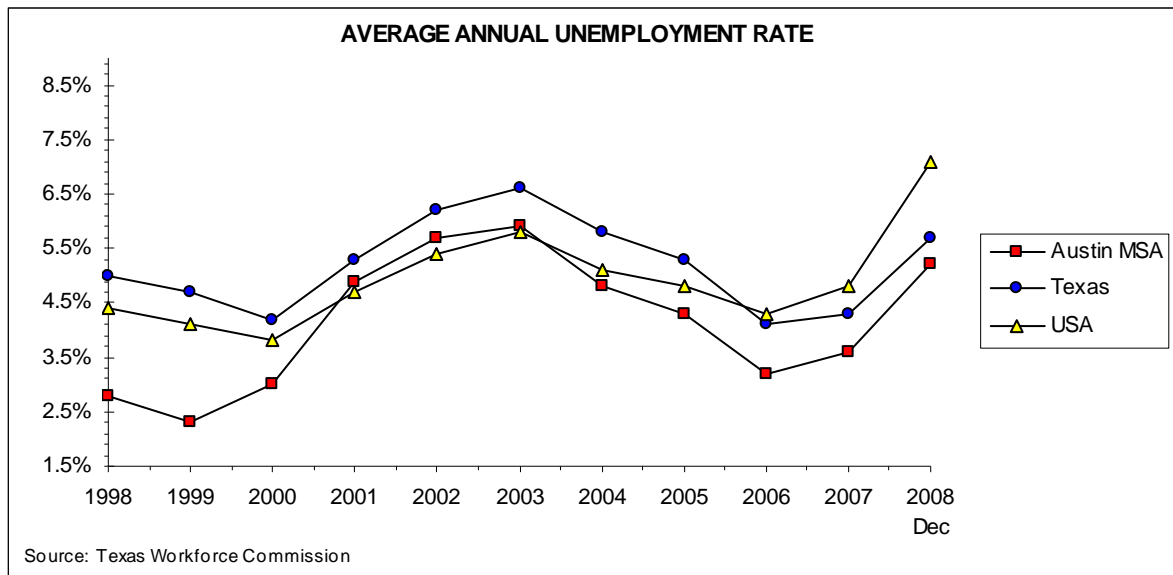
	<u>2000</u>		<u>2005</u>		<u>2006</u>		<u>2007</u>		<u>December, 2008</u>	
<u>Industrial Classification</u>		% of <u>Total</u>		% of <u>Total</u>		% of <u>Total</u>		% of <u>Total</u>		% of <u>Total</u>
Manufacturing	84,000	12.3%	57,500	8.4%	57,400	7.9%	60,600	7.9%	55,000	7.0%
Government	137,100	20.1%	146,800	21.5%	156,600	21.5%	158,400	20.8%	163,700	21.0%
Trade, transportation & utilities	116,000	17.0%	118,600	17.3%	151,400	20.8%	159,800	21.0%	163,700	21.0%
Services and miscellaneous	267,100	39.1%	281,300	41.1%	275,800	37.9%	290,100	38.0%	300,500	38.5%
Finance, insurance and real estate	35,400	5.2%	40,200	5.9%	42,500	5.8%	45,200	5.9%	47,200	6.0%
Natural resources, mining & construction	<u>42,700</u>	<u>6.3%</u>	<u>39,800</u>	<u>5.8%</u>	<u>44,600</u>	<u>6.1%</u>	<u>49,200</u>	<u>6.4%</u>	<u>50,800</u>	<u>6.5%</u>
Total	<u>682,300</u>	<u>100.0%</u>	<u>684,200</u>	<u>100.0%</u>	<u>728,300</u>	<u>100.0%</u>	<u>763,300</u>	<u>100.0%</u>	<u>780,900</u>	<u>100.0%</u>

(a) Austin-Round Rock MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided.

Source: Texas Labor Market Review, January 2009, Texas Workforce Commission.

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Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
1998	2.8%	5.0%	4.4%
1999	2.3%	4.7%	4.1%
2000	3.0%	4.2%	3.8%
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008 December	5.2%	5.7%	7.1%

Note: Information is updated periodically, data contained herein is latest provided.

Source: Texas Labor Market Review, January 2009, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-05	\$ 9.076	1-1-06	\$10.334	1-1-07	\$11.422	1-1-08	\$11.639	1-1-09	\$10.864
2-1-05	13.171	2-1-06	14.818	2-1-07	16.371	2-1-08	16.569		
3-1-05	9.049	3-1-06	10.051	3-1-07	11.080	3-1-08	12.109		
4-1-05	8.660	4-1-06	9.930	4-1-07	11.414	4-1-08	11.355		
5-1-05	11.795	5-1-06	12.950	5-1-07	14.611	5-1-08	13.882		
6-1-05	9.718	6-1-06	10.725	6-1-07	11.748	6-1-08	12.185		
7-1-05	8.936	7-1-06	11.981	7-1-07	12.011	7-1-08	12.129		
8-1-05	12.004	8-1-06	11.880	8-1-07	14.101	8-1-08	14.486		
9-1-05	9.938	9-1-06	11.152	9-1-07	11.883	9-1-08	12.349		
10-1-05	10.182	10-1-06	11.535	10-1-07	12.257	10-1-08	11.781		
11-1-05	11.735	11-1-06	13.401	11-1-07	14.774	11-1-08	13.595		
12-1-05	10.532	12-1-06	11.525	12-1-07	12.365	12-1-08	12.190		

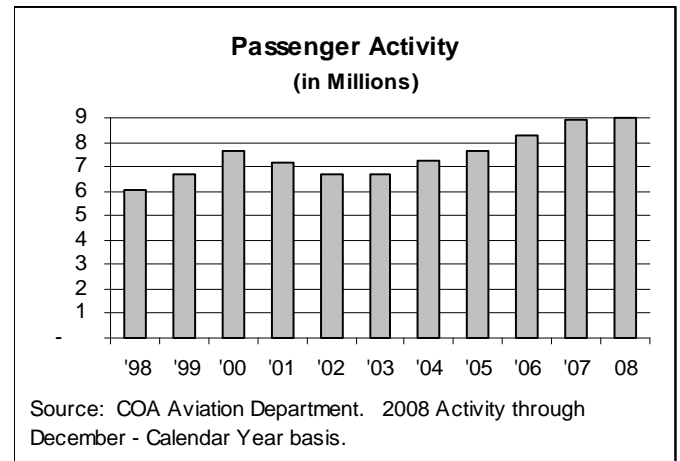
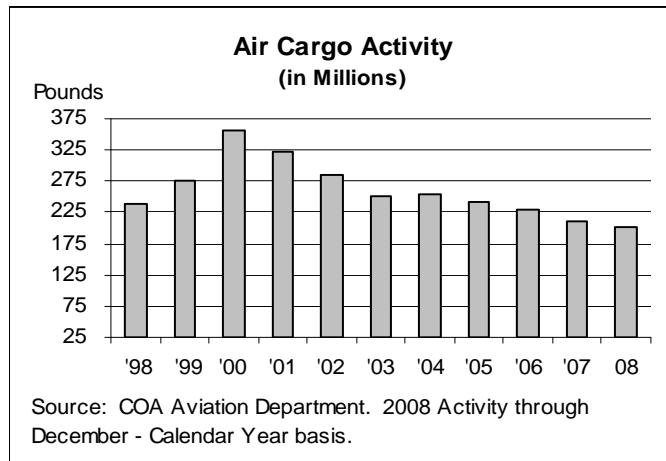
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2007)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	State Government	37,349
The University of Texas at Austin	Education	23,294
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	11,795
Austin Independent School District	Education	11,423
Federal Government	Federal Government	10,700
HEB	Retail	7,095
Seton Healthcare Network	Healthcare	6,743
Wal-Mart	Retail	6,500
IBM Corporation	Computers	6,300

Source: 2007 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

Prior to May 23, 1999 all passenger activity was out of Robert Mueller Municipal Airport.

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 11 major airlines with scheduled air service: Air Canada, American, Continental, Delta, Frontier, JetBlue, Northwest, Southwest, United, US Airways and vivaAerobus. Non-stop service is available to 42 U.S. destinations including 39 in the U.S. and 3 international destinations.

Rail facilities are furnished by Union Pacific and Longhorn Railway Company. Amtrak brought passenger trains back to the City in January 1973, as one of the infrequent stops on the Mexico City-Kansas City route. Bus service is provided by Greyhound and Kerrville Bus-Coach USA.

On January 19, 1985, the citizens of Austin and several surrounding areas approved the creation of a metropolitan transit authority ("Capital Metro") and adopted an additional one percent sales tax to finance a transit system for the area which was later reduced to three quarters of a percent, effective April 1, 1989. On June 12, 1995, the Capital Metro board approved a one quarter percent increase in the sales tax thus returning to one percent effective October 1, 1995.

Wealth Indicators

The Austin-Round Rock MSA has experienced growth not only in population, but also in median household income and per capita personal income, while maintaining a low unemployment rate.

<u>Year</u>	<u>City of Austin Population (1)</u>	<u>Area of Incorporation (Sq. Miles) (1)</u>	<u>Population MSA (2)(3)</u>	<u>Income (MSA) (Thousands of Dollars) (2)</u>	<u>Median Household Income MSA (4)</u>	<u>Capita Personnel Income MSA (2)</u>	<u>Unemployment Rate (MSA) (3)</u>
1998	608,214	254	1,155,579	33,116,579	33,690	28,658	2.9
1999	619,038	252	1,205,898	37,408,615	36,532	31,021	2.3
2000	628,667	265	1,249,763	41,157,290	36,321	32,548	3.0
2001	661,639	266	1,319,797	42,489,015	39,811	32,213	4.9
2002	671,044	273	1,341,464	41,908,425	47,089	31,128	5.8
2003	674,719	276	1,376,008	43,104,097	41,909	31,325	6.0
2004	683,551	291	1,411,483	46,191,915	39,227	32,726	4.8
2005	695,881	294	1,454,706	50,101,884	40,335	34,441	4.4
2006	714,237	296	1,513,565	54,954,527	40,888	36,308	3.9
2007	732,381	297	1,567,317 (5)	59,938,903 (5)	42,263	38,243 (5)	3.7
1998-2007 Change	16.95%	14.71%	26.27%	44.75%	20.28%	25.06%	

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.

(2) Source: Bureau of Economic Analysis.

(3) Source: Bureau of Labor Statistics, Texas A&M University as of September 30.

(4) Source: Claritas, a Nielsen Company.

(5) Data not available for 2007. Figures are estimated.

Growth Indicators

Austin has experienced considerable growth as evidenced by the following utility connection and building permit statistics.

Connections and Permits

Year	Utility Connections			Building Permits		
	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1991	281,926	142,721	131,713	\$ 327,777,503	\$33,619,419	\$ 361,396,922
1992	286,413	141,210	139,529	435,053,697	5,162,800	440,216,497
1993	291,896	146,396	143,088	607,717,144	70,976,449	678,693,593
1994	298,662	148,148	142,373	840,043,119	19,643,501	859,686,620
1995	306,670	149,867	147,023	870,446,315	11,087,831	881,534,146
1996	319,518	151,757	148,124	1,246,232,619	89,945,847	1,336,178,466
1997	326,816	156,397	156,752	1,023,114,762	2,574,539	1,025,689,301
1998	342,263	168,907	165,274	1,434,660,615	46,722,845	1,481,383,460
1999	348,721	173,038	173,150	1,501,435,229	54,399,189	1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786

Source: 2006 Comprehensive Annual Financial Report.

Housing Units

The average two-bedroom apartment in the Austin MSA was \$821 per month, with an occupancy rate of 91.4% for the third quarter 2008.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,047	6,910,684,916	246,397
2008 December	22,404	5,462,449,617	243,816

Note: Information is updated periodically, data contained herein is latest provided.

Source: Real Estate Center at Texas A&M University.

City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.1%
2003	76.5%
2004	76.7%
2005	83.1%
2006	87.5%
2007	85.6%
2008 2 nd Quarter	84.3%

Source: Capitol Market Research

Education

The Austin Independent School District had an enrollment of 82,541 for the 2008 school year. This reflects an increase of 3.0% in enrollment from the end of the 2007 school year. The District includes 113 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,145	76,821
2007/08	81,332	76,096
2008/09	82,547	78,584

Source: Austin Independent School District. (Data for the third six weeks, as of 12-19-08.)

The following institutions of higher education are located in the City: The University of Texas, St. Edward's University, Huston-Tillotson College, Concordia Lutheran College, Austin Presbyterian Theological Seminary, Episcopal Theological Seminary of the Southwest and Austin Community College.

The University of Texas at Austin had total enrollment of 49,984 for the fall semester of 2008 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were \$4.143 billion in 2006. There are more than 269 hotels available within the Austin Metropolitan Area, as of the second quarter of 2008, with a hotel occupancy rate of 69 percent.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility and the new Lester E. Palmer Events Center with 70,000 square

feet of exhibit space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center, the Austin Music Hall, and The Long Center for Performing Arts. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Music Hall has a concert seating capacity of 3,000 and 32,000 square feet of exhibit space. The Long Center for the Performing Arts, a \$77 million venue, opened in March 2008. The Center contains two theaters; the 2,300-seat Michael and Susan Dell Hall and the flexible 240-seat Debra and Kevin Rollins Studio Theater. The new venue belongs to the City, while a private nonprofit operates the building.

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain portions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Remarketing Memorandum, and all references and summaries pertaining to the Ordinance in this Remarketing Memorandum are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

Selected Definitions

“Additional Revenue Bonds” shall mean the additional parity revenue bonds permitted to be issued by the City pursuant to the Ordinance.

“Administrative Expenses” shall mean the fees, expenses and indemnification liabilities payable to the Persons to whom fees and expenses incurred in connection with the Revenue Series A Notes and Credit Agreement Obligations incurred in connection therewith, including but not limited to the fees and expenses of the Paying Agent/Registrars, the Credit Providers, the rebate analysts, the remarketing agents, the tender agents, the auction agents and the broker-dealers, and of which the City is given actual notice at least thirty (30) days prior to the due date thereof.

“Administrative Expense Fund” shall mean the fund by that name established in the Ordinance.

“Airport” shall mean the air carrier airport developed, constructed and operated by the City pursuant to the city-wide election held within the City on May 1, 1993, and designated as the Austin-Bergstrom International Airport (ABIA).

“Airport Consultant” shall mean a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation and financing of airports of approximately the same size as the properties constituting the Airport System.

“Airport System” shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, including the Airport, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding (i) any heliport or heliports operated by City Departments other than the Aviation Department and (ii) the Mueller Airport Property.

“Authorized Officer” shall mean the City Manager of the City or, to the extent so designated by the City Manager, any Assistant City Manager of the City or the Chief Financial Officer of the City.

“Aviation Director” shall mean the Executive Director of the City’s Department of Aviation, or any successor or person acting in such capacity.

“Bond Insurance Policy” shall mean the municipal bond insurance policy issued by the Bond Insurer insuring the payment, when due, of the principal of and interest on the Series A Notes.

“Bond Insurer” shall mean Financial Security Assurance, Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

“Series A Notes” shall mean the City of Austin, Texas, Airport System Variable Rate Revenue Bonds, Series A authorized by the Ordinance.

“Capital Fund” shall mean the fund so designated in the Ordinance.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Completion Series A Notes” shall mean each series of Revenue Bonds permitted to be issued as completion bonds by the City pursuant to Section 6.02 of the Ordinance.

“Construction Fund” shall mean the fund so designated in the Ordinance.

“Credit Agreement” shall mean (i) any agreement of the City entered into in connection with and for the purpose of (A) enhancing or supporting the creditworthiness of a series of Revenue Bonds or (B) providing liquidity with respect to Revenue Bonds which by their terms are subject to tender for purchase, and which, by its terms, creates a liability on the part of the City on a parity with the Revenue Bonds to which it relates, and (ii) a Swap Agreement. A determination by the City that an agreement constitutes a Credit Agreement under this definition shall be conclusive as against all Owners. As defined in the Note Ordinance, a “Credit Agreement,” “Alternate Credit Facility,” “Liquidity Facility” and “Alternate Liquidity Facility” executed in connection with the Series A Notes shall each constitute a Credit Agreement under the Ordinance.

“Credit Agreement Obligations” shall mean any amounts payable by the City under and pursuant to a Credit Agreement other than amounts payable as an Administrative Expense. Credit Agreement Obligations shall include “Reimbursement Obligations” incurred pursuant to the Note Ordinance.

“Credit Provider” shall mean the issuer or provider of a Credit Agreement.

“Debt Service Fund” shall mean the fund so designated in the Ordinance.

“Debt Service Requirements”, (i) with respect to Prior Lien Bonds, shall have the meaning assigned thereto in the Prior Lien Ordinances, and (ii) with respect to Revenue Bonds, shall mean, for any particular period of time, an amount equal to the sum of the following for such period with respect to all or any portion of Revenue Bonds or Credit Agreement Obligations, as applicable, then Outstanding:

A. That portion of interest which would accrue with respect to Revenue Bonds during such period if interest were deemed to accrue only during the 6 month period prior to its payment (12 month period in the case of capital appreciation or compound interest bonds), plus

B. That portion of the principal amount of such Revenue Bonds which would accrue during such period if principal was deemed to accrue only during the 12 month period prior to its scheduled payment date (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Revenue Bond redemptions);

less and except any such interest or principal for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, from interest earned or to be earned thereon, from Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated fund or account, the proceeds of which are required to be transferred as needed into the Debt Service Fund or directly to the paying agent for the Revenue Bonds.

For purposes of calculation of Debt Service Requirements, in making estimates as to interest accrued or to accrue on Variable Rate Bonds, the actual interest rate shall be used to the extent known or ascertainable and to the extent unknown and not ascertainable, the Maximum Interest Rate shall be used; provided, however, that to the extent Variable Rate Bonds are subject to a Swap Agreement, the fixed rate that is effective with respect to such Variable Rate Bonds pursuant to such Swap Agreement shall be used.

“Debt Service Reserve Fund” shall mean the fund so designated in the Ordinance.

“Debt Service Reserve Fund Requirement” shall mean the amount required to be maintained in the Debt Service Reserve Fund. Such amount shall be computed and recomputed annually as a part of the City’s budget process and upon the issuance of each series of Revenue Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Revenue Bonds then Outstanding including the series of Revenue Bonds then being issued. In no event, however, will the amount deposited in the Debt Service

Reserve Fund that is allocable to the Revenue Bonds or Additional Revenue Bonds, in accordance with section 1.148-6 of the regulations promulgated under the Code, exceed the least of (a) 10% of the stated principal amount of each issue of which such Revenue Bonds or Additional Revenue Bonds are a part, (b) the maximum annual principal and interest requirements of such issue or (c) 125% of the average annual principal and interest requirements of such issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Revenue Bonds and any Additional Revenue Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code and the regulations promulgated from time to time thereunder.

“Debt Service Reserve Fund Surety Bond” shall mean any surety bond or insurance policy having a rating in the highest respective rating categories by Moody’s and Standard & Poor’s issued to the City for the benefit of the Owners of the Revenue Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in the Ordinance.

“Federal Payments” shall mean those funds received by the Airport System from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

“Fiscal Year” shall mean the City’s fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

“General Obligation Airport Bonds” shall mean those bonds or other obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport System purposes.

“Gross Revenues” shall mean all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. Gross Revenues expressly exclude:

- (a) proceeds of any Prior Lien Bonds, Revenue Bonds and Subordinate Obligations;
- (b) interest or other investment income derived from Prior Lien Bonds, Revenue Bonds and Subordinate Obligation proceeds and Subordinate Obligations deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund;
- (c) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (d) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;
- (e) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (f) the proceeds of the passenger facility charge currently imposed by the City and any other per-passenger charge as may be hereafter lawfully authorized;
- (g) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;
- (h) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Series A Notes to be includable within the gross income of the Owners thereof for federal income tax purposes;

- (i) the proceeds received by the City from the sale or other disposition of Airport System property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues; and
- (j) Other Available Funds transferred to the Revenue Fund as provided in the Ordinance.

“Minimum Capital Reserve” shall mean an amount, designated by the Aviation Director not less frequently than annually at the end of each Fiscal Year, but in any event not more than \$100,000 each Fiscal Year, necessary to accumulate or to reaccumulate in the Capital Fund a reserve in an amount not less than \$1,000,000.

“Moody’s” shall mean Moody’s Investors Service, Inc., its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Mueller Airport Property” shall mean the property and facilities that comprised the former Robert Mueller Municipal Airport, located within the City. The Mueller Airport Property is not part of the Airport System.

“Net Revenues” shall mean that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport System.

“Note Ordinance” shall mean the ordinance of the City adopted by the City Council on February 5, 1998, authorizing the issuance of the Series A Notes.

“Series A Notes” shall mean the City’s Airport System Variable Rate Revenue Notes, Series A, issued pursuant to the Note Ordinance.

“Operation and Maintenance Expenses” shall mean all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City; any required rebate of any portion of interest income to the federal government which is payable from Gross Revenues or the Revenue Fund; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Prior Lien Bonds, Revenue Bonds and Subordinate Obligations for the Airport System (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding:

- (a) any allowance for depreciation;
- (b) costs of capital improvements;
- (c) reserves for major capital improvements, Airport System operations, maintenance or repair;
- (d) any allowance for redemption of, or payment of interest or premium on, Prior Lien Bonds, Revenue Bonds and Subordinate Obligations;
- (e) any liabilities incurred in acquiring or improving properties of the Airport System;
- (f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;

- (g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Fund;
- (h) liabilities based upon the City's negligence or other ground not based on contract; and
- (i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

"Operation and Maintenance Reserve Fund" shall mean the fund so designated and created within the Revenue Fund in the Ordinance.

"Other Available Funds" shall mean any amount of unencumbered funds accumulated in the Capital Fund in excess of the Minimum Capital Reserve which, prior to the beginning of any Fiscal Year, are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund, but in no event may such amount exceed twenty-five percent (25%) of the Debt Service Requirements for the Prior Lien Bonds for such Fiscal Year for purposes of Sections 5.03 (Rate Covenant) and 6.01 (Additional Prior Lien Bonds) of the Ordinance.

"Outstanding" when used with reference to any Prior Lien Bonds, Revenue Bonds and Subordinate Obligations shall mean, as of a particular date, all those Prior Lien Bonds, Revenue Bonds and Subordinate Obligations theretofore and thereupon delivered except: (a) any such obligation paid, discharged or cancelled by or on behalf of the City at or before said date; (b) any such obligation defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such obligation in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinance authorizing the issuance of such obligation.

"Owner" or "Registered Owner," when used with respect to any Revenue Bond shall mean the person or entity in whose name such Revenue Bond is registered in the registration books kept by the Paying Agent/Registrar. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Revenue Bonds then Outstanding under the Ordinance.

"Paying Agent/Registrar" initially shall mean, for the Series A Notes, Bank of New York, and its successors in that capacity.

"Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Pricing Certificate" shall mean a certificate or certificates to be signed by the Authorized Officer containing the terms and provisions authorized in the Ordinance.

"Principal Installment" shall mean, with respect to Revenue Bonds or a series of Revenue Bonds, any amounts, including any mandatory sinking fund installments, which are stated to be due or required to be made on or with respect to an Revenue Bond or series of Revenue Bonds, which, when made, would reduce the amount of the Revenue Bond or series of Revenue Bonds that remain Outstanding or would retire and pay the same in full.

"Prior Lien Bonds" shall mean the Series 1989 Bonds, the Series 1995A Bonds, the Series 1995B Bonds and Series 2003 Bonds.

"Prior Lien Debt Service Fund" shall mean the debt service fund established and created for the Prior Lien Bonds pursuant to the Prior Lien Ordinances.

“Prior Lien Debt Service Fund” shall mean the debt service reserve fund established and created for the Prior Lien Bonds pursuant to the Prior Lien Ordinances.

“Prior Lien Ordinances” shall mean the ordinances authorizing the Prior Lien Bonds.

“Qualified Put” shall mean any agreement, however denominated, provided by a qualifying financial institution (as described in the following sentence) which contractually commits to purchase, upon no more than seven days’ notice, for not less than a stated price any class or amount of investment securities or other authorized investments of the City at any time that such investment securities or investments must be liquidated in order to make cash transfers from the fund or account that holds such investments. A Qualified Put may be entered into only with a financial institution which (a) is a domestic bank the long-term debt of which is rated at least “AA” by Standard & Poor’s and “Aa” by Moody’s, or (b) a foreign bank the long-term debt of which is rated “AAA” by Standard & Poor’s and at least “Aa” by Moody’s, or at least “AA” by Standard & Poor’s and “Aaa” by Moody’s, or (c) a financial institution the long-term debt of which is rated at least “A” by both Standard & Poor’s and Moody’s and agrees to collateralize its obligations under such agreement by lodging with a third party trustee, escrow agent, custodian or other financial third party direct obligations of the United States of America or its agencies with a market value equal to 102% of the difference between the face amount of its purchase obligation under the agreement and the market value of the investment securities to which the agreement relates (based upon periodic market valuations at least monthly), or (d) a financial institution approved by any bond insurer then insuring a series of Prior Lien Bonds. A Qualified Put may be integrated into any investment authorized under Texas law, such as a repurchase agreement.

“Register” shall mean the books of registration kept by the Paying Agent/Registrar in which are maintained the names and addresses of and the principal amounts registered to each Owner.

“Renewal and Replacement Fund” shall mean the fund so designated in the Ordinance.

“Renewal and Replacement Fund Requirement” shall mean the amount required to be maintained in the Renewal and Replacement Fund pursuant to the Ordinance, or any greater amount required by any ordinance authorizing any series of Additional Revenue Notes.

“Revenue Bond Ordinances” shall mean the Note Ordinance, this Ordinance and any ordinances pursuant to which Additional Revenue Notes are issued.

“Revenue Bonds” shall mean each series of bonds, notes or other obligations, other than Credit Agreement Obligations, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance, payable from and secured by a lien on and pledge of Net Revenues junior and subordinate to the lien and pledge securing the Prior Lien Bonds.

“Revenue Fund” shall mean the fund so designated in the Ordinance.

“Series 1989 Bonds” shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Bonds, Series 1989.

“Series 1995A Bonds” shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Bonds, Series 1995A.

“Series 1995B Bonds” shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Refunding Bonds, Series 1995B.

“Series 2003 Bonds” shall mean the City of Austin, Texas Airport System Prior Lien Revenue Refunding Bonds, Series 2003.

“Special Facilities” shall mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

“Special Facilities Bonds” shall mean those bonds from time to time hereafter issued by the City pursuant to the appropriate provisions of the Ordinance.

“Special Facilities Lease” shall mean any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facility.

“Standard & Poor’s” shall mean Standard & Poor Ratings Services, A Division of The McGraw-Hill Companies, Inc., its successors and assigns, and if such entity shall for any reason no longer perform the functions of a securities rating agency, “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Subordinate Obligations” shall mean each series of bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance as Subordinate Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Prior Lien Bonds and the Revenue Bonds.

“Swap Agreement” means a Credit Agreement, approved in writing by the Bond Insurer, with respect to a series of Revenue Bonds pursuant to which the City has entered into an interest rate exchange agreement or other interest rate hedge agreement for the purpose of converting in whole or in part the City’s fixed or variable interest rate liability on all or a portion of the Revenue Bonds to a fixed or variable rate liability (including converting a variable rate liability to a different variable rate liability). For the purpose of this definition, a counterparty is not qualified unless it holds, on the date of execution of a Swap Agreement, a current rating by at least two of the following three rating agencies: Moody’s Investor Services, Inc., and by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and by Fitch Ratings, or their respective successors, at least equal to the rating of each such rating agency assigned to the Revenue Bonds without reference to any Credit Agreement. The Series 2005 Swap Agreement previously executed and delivered by the City constitutes a Swap Agreement under the Ordinance with respect to the Series A Notes.

“Termination Payment” shall mean an amount owed by the City to a counterparty pursuant to a Swap Agreement incurred in connection with the termination of such Swap Agreement and which, on the date of execution of the Swap Agreement, is not an amount representing a regularly scheduled payment thereunder. “Termination Payment” shall not include any amount representing an Administrative Expense.

“Variable Rate” shall mean an interest rate borne by the Revenue Bonds that is reset from time to time.

“Variable Rate Bonds” shall mean Revenue Bonds which bear a Variable Rate.

Funds and Flow of Funds

Funds. The Ordinance creates the Revenue Fund, including the Operation and Maintenance Reserve Fund therein, the Debt Service Fund, the Debt Service Reserve Fund, the Renewal and Replacement Fund, the Capital Fund, including the Capital Improvement Account therein, and the Construction Fund. The City may create additional accounts and sub-accounts in any of the funds, including specifically rebate accounts or sub-accounts for accumulating rebatable arbitrage payable to the federal government, so long as they are not inconsistent with the Ordinance.

The Revenue Fund, including the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund, the Capital Fund and the Construction Fund (other than any Capitalized Interest Accounts therein) shall be maintained as separate funds or accounts on the books of the City and all amounts credited to such Funds and Accounts shall be maintained in an official depository bank of the City. The Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund and all Capitalized Interest Accounts established in the Construction Fund for Prior Lien Bonds and the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund shall constitute trust funds which

shall be held in trust for the owners of the Revenue Bonds and the proceeds of which shall be pledged, as provided in the Ordinance, to the payment of the Revenue Bonds. The Administrative Expense Fund shall constitute trust funds which shall be held in trust for the payment of Administrative Expenses to the Persons entitled thereto.

Flow of Funds. Gross Revenues shall be deposited as received into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments not restricted for capital purposes, provided that, so long as such Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses or capital expenditures and never constitute Net Revenues. Other Available Funds may also be deposited into the Revenue Fund. Moneys from time to time credited to the Revenue Fund shall be applied as follows in the following order of priority:

- (a) First, to provide for all payments of Operation and Maintenance Expenses required by the Prior Lien Ordinances or the Revenue Bond Ordinances.
- (b) Second, to transfer all amounts to the Prior Lien Debt Service Fund required by the Prior Lien Ordinances.
- (c) Third, to transfer all amounts to the Prior Lien Debt Service Reserve Fund required by the Prior Lien Ordinances.
- (d) Fourth, to transfer all amounts to the Debt Service Fund required by the Revenue Bond Ordinances necessary to pay Debt Service on the Revenue Bonds and any Credit Agreement Obligations related thereto.
- (e) Fifth, to transfer all amounts to the Administrative Expense Fund required to pay Administrative Expenses to the Persons entitled thereto when due.
- (f) Sixth, to transfer all amounts to the Debt Service Reserve Fund required by the Revenue Bond Ordinances.
- (g) Seventh, to transfer all amounts necessary to provide for the payment of Subordinate Obligations, or to provide reserves for such payment, as may be required by any ordinance authorizing such Subordinate Obligations and credit agreement obligations related thereto.
- (h) Eighth, to transfer all amounts necessary to provide for the payment of principal of and interest on General Obligation Airport Bonds.
- (i) Ninth, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Revenue Bond Ordinances.
- (j) Tenth, to transfer all amounts to the Renewal and Replacement Fund required by the Revenue Bond Ordinances.
- (k) Eleventh, the balance shall be transferred to the Capital Fund.

Debt Service Fund. On or before the last Business Day of each month so long as any Revenue Bonds remain Outstanding, after making all required payments of Operation and Maintenance Expenses and all payments and transfers to the Prior Lien Debt Service Fund and the Prior Lien Debt Service Reserve Fund required by the Prior Lien Ordinances, there shall be transferred from the Revenue Fund to the Debt Service Fund the amount necessary to cause the balance in the Debt Service Fund to equal (i) the Debt Service on all Revenue Bonds and Credit Agreement Obligations accrued, but unpaid, to the end of the current month and the Debt Service on all Revenue Bonds and Credit Agreement Obligations reasonably expected to accrue and be payable on or before the last Business Day of the next succeeding month, plus (ii) such additional amounts as may be required to be deposited therein pursuant to the Note Ordinance. Moneys credited to the Debt Service Fund shall be used solely for the purpose of paying Debt Service on Revenue Bonds and Credit Agreement Obligations.

Debt Service Reserve Fund. The City shall establish and maintain as provided in the Ordinance a balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement. Each increase in the Debt Service Reserve Fund Requirement resulting from the issuance of Additional Revenue Bonds shall be funded at the time of issuance and delivery of such series of Additional Revenue Bonds by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such Additional Revenue Bonds and/or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Debt Service Reserve Fund Requirement. The City further expressly reserves the right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Revenue Bonds were issued or to pay debt service on the related Revenue Bonds. The City shall not employ any Debt Service Reserve Fund Surety Bond unless (i) the City officially finds that the purchase of such Debt Service Reserve Fund Surety Bond is cost effective, (ii) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in eighteen (18) monthly installments as provided below, payable out of Net Revenues on a parity with the monthly deposits that are otherwise required to be made to the Debt Service Reserve Fund, and (iii) that any interest due in connection with such repayment obligation does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond.

In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last business day of such month, after making all required transfers to the Debt Service Fund and the Administrative Expense Fund, there shall be transferred into the Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to enable the City within an eighteen (18) month period to reestablish in the Debt Service Reserve Fund the Debt Service Reserve Fund Requirement and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond. After such amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond issuer and so long thereafter as such Fund contains such amount and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such Fund shall be transferred to the Revenue Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, monthly transfers to the Debt Service Reserve Fund shall be resumed and continued in such amounts as shall be required to restore the Debt Service Reserve Fund to such amount and to pay such reimbursement obligations within an eighteen (18) month period.

The Debt Service Reserve Fund shall be used to pay Debt Service on the Revenue Bonds and the Credit Agreement Obligations at any time the amount available in the Debt Service Fund is insufficient for such purpose, and to make any payments required to satisfy repayment obligations to issuers of Debt Service Reserve Fund Surety Bonds, and may be used to make the final payments for the retirement or defeasance of Revenue Bonds, Credit Agreement Obligations related thereto and Administrative Expenses.

Funds and Accounts for Subordinate Obligations. On or before the last business day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund there shall be transferred into such funds and accounts as shall be established for such purpose pursuant to the ordinance authorizing the issuance or incurrence of Subordinate Obligations, such amounts as shall be required pursuant to such ordinance to provide for the payment, or to provide reserves for the payment, of the Subordinate Obligations.

General Obligation Airport Bonds. On or before the last business day of each month, so long as any General Obligation Airport Bonds remain outstanding, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and any of the aforesaid funds and accounts established by ordinance authorizing the issuance of Revenue Bonds and Subordinate Obligations, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, such amounts as shall be necessary to provide for the payment, when due, of principal of and interest on General Obligation Airport Bonds.

Operation and Maintenance Reserve Fund. The City shall fund and maintain a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two (2) months current Operation and

Maintenance Expenses, which amount shall annually be redetermined by the Aviation Director at the time he submits his recommended budget for the Airport System based upon either his recommended budget for Operation and Maintenance Expenses or his estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year. On or before the last business day of each month, after making all required transfers to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and any required transfers for Revenue Bonds, Subordinate Bonds or General Bond Airport Bonds as hereinabove provided, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, to the Operation and Maintenance Reserve Fund an amount equal to one-twelfth (1/12th) of the deficiency, if any, therein as of the last day of the previous Fiscal Year until the required balance therein is established or reestablished. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Operation and Maintenance Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, and the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund, or any similar fund created to provide for the payment, and reserves for the payment, of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

Renewal and Replacement Fund. The City has established the Renewal and Replacement Fund Requirement to be \$5,000,000. On or before the last business day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required transfers to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund and any required transfers for Subordinate Obligations or General Obligation Airport Bonds as hereinabove provided, and to the Operation and Maintenance Reserve Fund, there shall be transferred from the Revenue Fund, to the extent funds are available therein, to the Renewal and Replacement Fund an amount equal to one-twelfth (1/12th) of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. Such transfers shall be required to be made into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time first, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Operation and Maintenance Fund; and third, to the extent any amounts are remaining, to be transferred to the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Administrative Expense Fund or any similar fund created to provide for the payment, and reserves for the payment, of Revenue Bonds, Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

Capital Fund. After making all payments and transfers hereinabove required, not less frequently than annually all amounts remaining in the Revenue Fund shall be transferred to the Capital Fund; provided, however, that no transfers shall be made to the Capital Fund unless the Prior Lien Debt Service Reserve Fund contains the Prior Lien Debt Service Reserve Fund Requirement and the Debt Service Reserve Fund contains the Debt Service Reserve Fund Requirement. Amounts credited to the Capital Improvement Account may be used only for lawful purposes relating to the Airport System, including without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest therein, to pay costs necessary or incident to the closing or disposition of any facility of the Airport System and, at the City's discretion, to be designated as Other Available Funds to be transferred to the Revenue Fund.

Construction Fund. From the proceeds of each series of Prior Lien Bonds (other than the Series A Notes or other Refunding Revenue Bonds) there shall be deposited into the Capitalized Interest Account established in the Construction Fund for such series the amount of capitalized interest required by the ordinance authorizing issuance of such series of Revenue Bonds. Such amounts may be applied to pay interest on such series of Revenue Bonds as provided in such ordinance.

From the proceeds of each series of Revenue Bonds (other than the Series A Notes or other Refunding Revenue Bonds) there shall be deposited into the applicable Project Account established in the Construction Fund such amounts as shall be provided in the ordinance authorizing such series of Revenue Notes. Such amounts may be applied to pay costs of establishing, improving, enlarging, extending and repairing the Airport System or any project to become part of the Airport System, to reimburse advances made by the City for such costs, to pay costs of issuance of Revenue Bonds and to pay any other capital costs of the Airport System as provided in the ordinance authorizing such series of Revenue Bonds.

Mueller Airport Disposition Fund. In connection with the issuance of the Series 1995A Bonds and the Series 1995B Bonds which are no longer outstanding, the City established the Mueller Disposition Fund for the purpose of paying or reimbursing costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport for aviation purposes and the disposition of the Mueller Airport Property. Subsequent to the issuance of the Series 1995A Bonds and the Series 1995B Bonds and the opening of the Airport, the Robert Mueller Municipal Airport was closed for aviation purposes and the Mueller Airport Property was transferred out of the Airport System and is no longer part of the Airport System. In connection with the transfer of the Mueller Airport Property, the City deposited certain funds into the Mueller Disposition Fund. Such funds, together with any other amounts deposited into the Mueller Disposition Fund, may be used for the payment or reimbursement of all costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport to aviation purposes and the disposition of the Mueller Airport Property. Any amounts thereafter remaining, if any, will be transferred to the City's aviation department.

Investment of Funds; Transfer of Investment Income. Money in all Funds and Accounts shall, at the option of the City, be invested in the manner provided by Texas law; provided, that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Moneys in such Funds and Accounts may be subjected to further investment restrictions imposed from time to time by ordinance authorizing the issuance of Additional Revenue Bonds and Subordinate Obligations. All such investments shall be valued no less frequently than once per Fiscal Year at market value, except that (i) any direct Obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount, and (ii) any investments which are subject to a Qualified Put may continuously be valued at the amount at which they can be put or sold under the terms of such Qualified Put. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to any of the following funds and accounts shall be applied as follows, except as provided in the following paragraph.

<u>Source of Interest or Income</u>	<u>Fund or Account to which such Interest or Income should be Credited</u>
Revenue Fund	Remains in Revenue Fund
Prior Lien Debt Service Fund and Debt Service Fund	Revenue Fund
Prior Lien Debt Service Reserve Fund and Debt Service Reserve Fund	Remains in fund until the applicable Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue Fund
Administrative Expense Fund	Revenue Fund
Operation and Maintenance Reserve Fund	Remains in fund until fully funded; thereafter, to the

	Revenue Fund
Renewal and Replacement Fund	Remains in fund until Renewal and Replacement Fund Requirement is met; thereafter, to the Revenue Fund
Capital Fund - Capital Improvement Account	Remains in the fund or in the appropriate fund or account therein

Any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (i) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in the Ordinance or required in order to prevent interest on any Series A Notes payable from Net Revenues from being includable within the gross income of the Owners thereof for federal income tax purposes.

So long as any Prior Lien Notes remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the Debt Service Fund and the Debt Service Reserve Fund shall be secured by the pledge of security, as provided by Texas law.

Additional Bonds

Additional Revenue Bonds. The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Revenue Bonds payable from and secured on a parity with the Outstanding Revenue Bonds; provided, however, that no such Additional Revenue Bonds shall be issued unless:

- (a) No Default. The City Manager and the Aviation Director certify that, upon the issuance of such Additional Revenue Bonds, the City will not be in default under any term or provision of any Revenue Bonds then Outstanding or any ordinance pursuant to which any of such Prior Lien Bonds or Revenue Bonds were issued unless such default will be cured by the issuance of such Additional Revenue Bonds.
- (b) Proper Fund Balances. The City's Chief Financial Officer or trustee, if one has been appointed, shall certify that, upon the issuance of such Additional Revenue Bonds, the Debt Service Fund and the Prior Lien Debt Service Fund will have the required amounts on deposit therein and that the Debt Service Reserve Fund and the Prior Lien Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or so much thereof as is required to be funded at such time.
- (c) Projected Coverage for Additional Revenue Bonds. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three (3) consecutive Fiscal Years beginning in the earlier of
 - (i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Revenue Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or
 - (ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Revenue Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Revenue Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least 125% of the Debt Service Requirements on all outstanding Prior Lien Bonds and Revenue Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Revenue Bonds to be issued.

- (d) Alternate Coverage for Additional Revenue Bonds. In lieu of the certification described in (c) above, the City's Chief Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all Prior Lien Bonds and Revenue Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Revenue Bonds proposed to be issued.
- (e) Refunding Bonds. If Additional Revenue Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds or Revenue Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Revenue Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of such Additional Revenue Bonds.
- (f) Bond Ordinance Requirements. Provision is made in the Revenue Bond Ordinances authorizing the Additional Revenue Bonds proposed to be issued for (1) additional payments into the Debt Service Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the Additional Revenue Bonds including, in the event that interest on the additional series of Revenue Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Revenue Bonds during the period specified in the Revenue Bond Ordinances, and (2) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Ordinance or any other Revenue Bond Ordinance authorizing such Additional Revenue Bonds.
- (g) Special Provisions for Completion Bonds. The provisions of paragraphs (c) and (d) above shall not apply to the issuance of Completion Bonds in accordance with the provisions of the Ordinance.

Completion Bonds. The City reserves the right to issue one or more series of Revenue Bonds to pay the cost of completing any Project for which Revenue Bonds have previously been issued.

Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required above for the issuance of Additional Prior Lien Bonds, the following documents:

- (a) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that such Project has not materially changed in scope since the issuance of the most recent series of Prior Lien Bonds or Revenue Bonds for such purpose (except as permitted in the applicable ordinance authorizing such Prior Lien Bonds or Revenue Bonds) and setting forth the aggregate cost of the Project which, in the opinion of such consulting engineer, has been or will be incurred; and
- (b) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Project from the proceeds of the most recent series of Prior Lien Bonds or Revenue Bonds issued in connection with the Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Project; (ii) containing a calculation of the amount by which the aggregate cost of that Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Project.

For purposes of this Section, the term "Project" shall mean the Airport or any other Airport System facility or project which shall be defined as a Project in any ordinance authorizing the issuance of Additional Prior Lien Bonds or Additional Revenue Bonds, as applicable, for the purpose of financing such Project. Any such ordinance may contain

such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Project.

Subordinate Obligations. The City reserves the right to issue or incur, for any lawful Airport System purpose, Subordinate Obligations and Credit Agreement Obligations related thereto, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the Prior Lien Bonds and Revenue Bonds. Although herein referred to as “Subordinate Obligations,” such Subordinate Obligations may bear any name or designation provided by ordinance authorizing their issuance or incurrence. Such Subordinate Obligations may be further secured by any other source of payment lawfully available for such purposes. Unless expressly provided herein to the contrary, no default with respect to a Subordinate Obligation shall constitute a default hereunder.

Special Facilities Bonds. The City reserves the right in the Ordinance to issue from time to time, in one or more series, Special Facilities Bonds to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by lessees under Special Facilities Leases and/or other security not provided by the City. In no event shall Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Prior Lien Bonds, the Revenue Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. Unless expressly provided in the Ordinance to the contrary, no default with respect to a Special Facilities Bond shall constitute a default under the Ordinance.

Credit Agreements. To the fullest extent permitted by applicable law, the City expressly reserves the right to enter into Credit Agreements in connection with any series of Revenue Bonds and to pledge to and secure the payment of related Credit Agreement Obligations from Net Revenues and the various funds and accounts established or referred to in the Ordinance to the extent permitted by the Ordinance, the Prior Lien Ordinances, the Note Ordinance and any of the City’s other ordinances authorizing the issuance of Additional Revenue Bonds and to enter into credit agreements in connection with any series of Subordinate Obligations.

No Prior Lien Bonds to be Issued. The City covenants and agrees in the Ordinance that on and after the delivery date of the Series A Notes the City will not issue Additional Prior Lien Bonds, as defined in the Prior Lien Ordinances.

Particular Covenants

Annual Budget. So long as any Revenue Bonds or Credit Agreement Obligations remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and deliver to the chief budget officer of the City, for submission to the City Council, a recommended annual budget for the Airport System for such Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of Gross Revenues and only such budgeted expenditures as will produce Net Revenues in an amount that, after making all deposits and payments required by the Prior Lien Ordinances, is not less than the amount necessary to pay the Debt Service and Administrative Expenses when due and make the required deposits to the Debt Service Reserve Fund. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended.

Rate Covenant. The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will be at least sufficient to equal the larger of either:

- (i) all amounts required to be deposited in such Fiscal Year to the credit of the Prior Lien Debt Service Fund, the Prior Lien Debt Service Reserve Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Administrative Expense Fund and to any debt service or debt service reserve fund or account for Subordinate Obligations, or

- (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for Prior Lien Bonds and Revenue Bonds for such Fiscal Year plus an amount equal to 100% for anticipated and budgeted Administrative Expenses for such Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as the Debt Service is paid when due.

Sale or Encumbrance of Airport System. Except for the use of the Airport System or services pertaining thereto in the normal course of business, the City covenants that neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Revenue Bonds, Credit Agreement Obligations and Administrative Expenses have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities thereat, except for any pledges of and liens on revenues derived from the operation and use of the Airport System, or any part thereof, or any Special Facilities pertaining thereto, for the payment of Revenue Bonds, Credit Agreement Obligations and Administrative Expenses, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, shall be paid into the Capital Fund - Capital Improvement Account or shall be applied to retire or pay principal of or interest on Revenue Bonds.

Nothing herein prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under the Ordinance and in any ordinance authorizing the issuance of Revenue Bonds, wholly or in part, if, (i) in the written opinion of the Airport Consultant, the ability to meet the rate covenant and other covenants under the Ordinance and in any ordinance authorizing the issuance of Revenue Bonds, are not materially and adversely affected and (ii) in the written opinion of nationally recognized bond counsel, such transfer and assumption will not cause the interest on any Revenue Bonds that were issued as "tax-exempt bonds" within the meaning of the regulations promulgated under the Code to be includable in gross income of the Owners thereof for federal income tax purposes. In such event, following such transfer and assumption, all references to the City, any City officials, City Ordinance, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of such entity. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Consultant, such retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of the Ordinance and in any other Revenue Bond Ordinance.

Insurance. The City covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available; provided, however, that if any such insurance is not commercially available or not available on more favorable economic terms, the City may elect to be self insured in whole or in part against the risk or loss that would otherwise be covered by such insurance, in which case the City will establish reserves for such risk or loss in amounts the City determines to be appropriate. All net proceeds of property or casualty insurance shall be applied to repair or replace the insured property.

that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Prior Lien Bonds or Revenue Bonds. Proceeds of business interruption insurance may be credited to the Revenue Fund.

Accounts, Records, and Audits. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. The City shall, after the close of each of its Fiscal Years, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which may be part of an overall audit report of the City and/or other of its enterprise funds. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

Bondholders' Remedies. The Ordinance shall constitute a contract between the City and the Owners of the Revenue Bonds and the holders of Credit Agreement Obligations related thereto from time to time outstanding and the Ordinance shall be and remain irrevocable until the Revenue Bonds, the Credit Agreement Obligations related thereto and Administrative Expenses shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the Debt Service on any of the Revenue Bonds or Credit Agreement Obligations or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Revenue Bonds, and the holders of any Credit Agreement Obligations and the Persons to whom Administrative Expenses are owed may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Revenue Bonds or holder of Credit Agreement Obligations or Person to whom Administrative Expenses are owed, may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Ordinance, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in the Ordinance.

Legal Holidays. If any date on which a payment of Debt Service is due is not a Business Day, such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of scheduled payment of Debt Service.

Discharge By Deposit

The City may discharge its obligations to the Owners of any or all of the Series A Notes to pay Debt Service thereon, or any portion thereof, by depositing with the Paying Agent/Registrar cash in an amount equal to such Debt Service of such Series A Notes to the date of maturity or redemption (assuming, for any period that the interest thereon is subject to adjustment, that such Series A Notes shall bear interest at the Maximum Rate), or any portion thereof to be discharged, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of \$100,000,000, pursuant to an escrow or trust agreement, cash and/or Defeasance Obligations in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of Debt Service on the Series A Notes to the date of maturity or redemption or any portion thereof to be discharged. Upon such deposit, such Series A Notes, or any portion shall no longer be regarded to be Outstanding or unpaid. In case any Series A Notes are to be redeemed on any date prior to their maturity, the City shall give to the Paying Agent/Registrar irrevocable instructions to give notice of redemption of Series A Notes to be so redeemed in the manner required in the Ordinance.

Amendments

Alteration of Rights and Duties. The rights, duties, and obligations of the City and the Owners of the Series A Notes and the holders of Credit Agreement Obligations related to the Series A Notes, and Persons to whom Administrative Expenses are owed, are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

Amendment of Ordinance Without Consent. The City may, without the consent of or notice to any of the Owners of the Series A Notes but with the consent of the Bond Insurer, amend the Ordinance for any one or more of the following purposes:

- (a) to cure any ambiguity, defect, omission or inconsistent provision in the Revenue Bond Ordinances or in the Revenue Bonds; or to comply with any applicable provision of law or regulation of Federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Revenue Bonds;
- (b) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Revenue Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes;
- (c) to grant to or confer upon the Owners of the Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Revenue Bonds;
- (d) to add to the covenants and agreements of the City contained in the Revenue Bond Ordinances other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance;
- (e) to amend any provisions of the Ordinance relating to the issuance of Revenue Bonds and Subordinate Obligations or the incurrence of and security for reimbursement obligations in connection therewith so long as to do so does not cause any reduction in any rating assigned to the Outstanding Revenue Bonds by any nationally recognized rating agency then rating any series of Revenue Bonds;
- (f) to subject to the lien and pledge of the Revenue Bond Ordinances additional Net Revenues which may include revenues, properties or other collateral;
- (g) to amend the undertaking contained in Article Thirteen of the Ordinance to the extent permitted in such Article; and
- (h) to amend the provisions of Article Twelve of the Ordinance to the extent permitted in such Article.

Amendments of Ordinance Requiring Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Ordinance but, if such amendment is not of the character described above, only with the consent given in accordance with the Ordinance of not less than 66-2/3% of the Owner or Owners of the aggregate unpaid principal amount of the Revenue Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this paragraph shall permit (a) an extension of the maturity of the principal of or interest on any Revenue Bond issued hereunder, or (b) a reduction in the principal amount of any Revenue Bond or the rate of interest on any Revenue Bond, or (c) a privilege or priority of any Revenue Bond or Revenue Bonds over any other Revenue Bond or Revenue Bonds, or (d) a reduction in the percentage of aggregate principal amount of the Revenue Bonds required for consent to such amendment.

Consent of Owners. Any consent required by the preceding paragraph hereof by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership of Revenue Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Revenue Bond Ordinances, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

- (a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.

- (b) The fact of the ownership by any person of any Revenue Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that at the date thereof such Revenue Bond was registered in the name of such party in the Register.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

Consents required pursuant to the subsection titled "Amendments of Ordinance Requiring Consent" shall be valid only if given following the giving of notice by or on behalf of the City requesting such consent and setting forth the substance of the amendment of the Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Clerk for inspection. Such notice shall be given by certified mail to each Registered Owner of the Revenue Bonds affected at the address shown on the Register.

No amendment or supplement to the Ordinance shall be effective unless and until the Bond Insurer shall have consented thereto in writing.

Revocation of Consent. Any consent by any Owner of a Revenue Bond shall be irrevocable for a period of eighteen (18) months from the date of mailing of the notice provided for in the Ordinance, and shall be conclusive and binding upon all future Owners of the same Revenue Bond and any Revenue Bond delivered on transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after eighteen (18) months from the date of the first mailing of such notice by the Owner who gave such consent or by a successor in title, by filing notice thereof with the Paying Agent/Registrar, but such revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Revenue Bonds Outstanding as in the Ordinance defined have, prior to the attempted revocation, consented to and approved the amendment.

Use of Passenger Facility Charges

The City covenants and agrees, for the benefit of the Owners of the Revenue Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge so imposed and collected by the City for the payment of debt service on the Prior Lien Bonds and the Revenue Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of such passenger facility charges will not reduce the forecast coverage of Debt Service Requirements by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

APPENDIX E

STATE STREET BANK AND TRUST COMPANY



STATE STREET®

Information Concerning State Street Bank and Trust Company

State Street Bank and Trust Company (the “Bank”) is a wholly-owned subsidiary of State Street Corporation (the “Corporation”). The Corporation (NYSE: STT) is a leading specialist in providing institutional investors with investment servicing, investment management and investment research and trading. With \$15.30 trillion in assets under custody and \$1.98 trillion in assets under management, the Corporation operates in 26 countries and more than 100 markets worldwide. The assets of the Bank at December 31, 2007 accounted for approximately 94% of the consolidated assets of the Corporation. At December 31, 2007, the Corporation had total assets of \$142.54 billion, total deposits (including deposits in foreign offices) of \$95.79 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately \$15.8 billion and total equity capital of \$11.30 billion.

The Bank’s Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 2007, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this Appendix and shall be deemed to be a part hereof.

In addition, all reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Reoffering Circular shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank is set forth in the Corporation’s Annual Report or Form 10-K for the year ended December 31, 2007. The annual report can be found on the Corporation’s web site, www.statestreet.com. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Reoffering Circular are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Credit Agreement is an obligation of the Bank and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Reoffering Circular has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Reoffering Circular by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither the Bank nor its affiliates make any representation as to the contents of this Reoffering Circular (except as to this Appendix to the extent it relates to the Bank), the suitability of the Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.